CARIBBEAN BASIN ECONOMIC RECOVERY ACT

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 2769

TO PROMOTE ECONOMIC REVITALIZATION AND FACILITATE EXPANSION OF ECONOMIC OPPORTUNITIES IN THE CARIBBEAN BASIN REGION

JUNE 9, 1983

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CONTENTS

Page

Press release announcing hearing 1
H.R. 2769, text 3

WITNESSES

Office of the United States Trade Representative, Ambassador Michael B. Smith, Deputy U.S. Trade Representative, and Claud Gingrich, General Counsel 41
Department of State, Hon. Lawrence S. Eagleburger, Under Secretary for Political Affairs 46
Department of the Treasury, Hon. John E. Chapoton, Assistant Secretary for Tax Policy 51

American Federation of Labor and Congress of Industrial Organizations, Stephen Koplan 94
American Iron & Steel Institute, Thomas N. Tyrrell 165
Brady, Hon. Julio, Lieutenant Governor of the U.S. Virgin Islands, on behalf of Hon. Juan Luis, Governor 88
Caribbean/Central American Action, Peter B. Johnson 105
Corrada, Hon. Baltasar, Resident Commissioner of the Commonwealth of Puerto Rico 85
de Lugo, Hon. Ron, a Delegate to Congress from the Virgin Islands 79
Electronic Industries Association, Herbert J. Rowe 170
Emergency Committee for American Trade, Robert L. McNeill 103
Florida Citrus Mutual, Bobby F. McKown 173
Harding, Ralph R., Philippine Sugar Commission 182
Hopkins, Hon. Larry J., a Representative in Congress from the State of Kentucky 74
Johnson, Peter B., Caribbean/Central American Action 105
Koplan, Stephen, American Federation of Labor and Congress of Industrial Organizations 94
Luis, Hon. Juan. (*See* U.S. Virgin Islands.)
McKown, Bobby F., Florida Citrus Mutual 173
McNeill, Robert L., Emergency Committee for American Trade 103
Philippine Sugar Commission, Ralph R. Harding 182
Puerto Rico Manufacturers Association, Francisco M. Rexach 184
Raritan River Steel Co., Thomas N. Tyrrell 165
Rexach, Francisco M., Puerto Rico Manufacturers Association 184
Rowe, Herbert J., Electronic Industries Association 170
Sood, James H., West Indies Rum & Spirits Producers' Association 125
Tyrrell, Thomas N., Raritan River Steel Co., on behalf of the American Iron & Steel Institute 165
U.S. Virgin Islands, Hon. Julio Brady, Lieutenant Governor, on behalf of Hon. Juan Luis, Governor 88
Wachholz, Douglas P., West Indies Rum & Spirits Producers' Association 125
West Indies Rum & Spirits Producers' Association, Douglas P. Wachholz and James H. Sood 125

SUBMISSIONS FOR THE RECORD

American Association of Exporters & Importers, Eugene J. Miloah, letter 199
American Farm Bureau Federation, John C. Datt, letter 199
American Federation of Teachers, Hon. Hugo Dennis, Jr., statement 200

Page

American Legion, Harry E. B. Sullivan, statement 201
American Watch Association, Bertram S. Lowe, letter and attachment 203
Ansin, Ronald, Leather Products Coalition, statement 248
Association of American Chambers of Commerce in Latin America, John T. Plunket, letter forwarding telexes from American Chambers of Commerce in Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, and Panama 204
Bread for the World, John P. Olinger, statement 206
Caribbeana Council, Walker A. Williams, statement 209
Chamber of Commerce of Puerto Rico, Jose R. Colon, letter 254
Chamber of Commerce of the United States of America, Hilton Davis, letter 212
Cigar Association of America, Inc., statement 213
Colon, Jose R., Chamber of Commerce of Puerto Rico, letter 254
Cooper, Mitchell J., Rubber Manufacturers Association, Footwear Division, letter 256
Council on Hemispheric Affairs, Charles A. Perlik, Jr., statement 215
Cruver, Philip C., Dynergy Systems Corp., statement 233
Datt, John C., American Farm Bureau Federation, letter 199
Davis, Hilton, Chamber of Commerce of the United States of America, letter 212
Dennis, Hon. Hugo, Jr., American Federation of Teachers, statement 200
Despradel, Ambassador Carlos, letter forwarding statement of the International Sugar Policy Coordinating Commission of the Dominican Republic 231
Development Group for Alternative Policies and Interreligious Task Force on U.S. Food Policy, joint statement 222
Dominican Republic, International Sugar Policy Coordinating Commission of, statement forwarded by Ambassador Carlos Despradel 231
Dynergy Systems Corp., Philip C. Cruver, statement 233
Florida Fruit & Vegetable Association, John M. Himmelberg, statement 243
Florida Tomato Exchange, John M. Himmelberg, statement 243
Himmelberg, John M.:
Florida Fruit & Vegetable Association, statement 243
Florida Tomato Exchange, statement 243
International Center of Florida, Thomas G. Travis, letter 246
Interreligious Task Force on U.S. Food Policy and Development Group for Alternative Policies, joint statement 222
Kirkham, Lawrence A., Syntex Corp., letter 257
Leather Products Coalition, Ronald Ansin, Arnold Mayer, and Leroy Weiner, joint statement 248
Lowe, Bertram S., American Watch Association, letter and attachment 203
Mayer, Arnold, Leather Products Coalition, statement 248
Milosh, Eugene J., American Association of Exporters & Importers, letter 199
National Association of Beverage Importers, Inc., Thomas E. O'Neill, on behalf of Rex D. Davis, statement 251
Nelthropp, Donald C., Virgin Islands Rum Industries, Ltd., statement 260
Olinger, John P., Bread for the World, statement 206
O'Neill, Thomas E., on behalf of Rex D. Davis, National Association of Beverage Importers, Inc., statement 251
Perlik, Charles A., Jr., Council on Hemispheric Affairs, statement 215
Plunket, John T., Association of American Chambers of Commerce in Latin America, letter forwarding telexes from American Chambers of Commerce in Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, and Panama 204
Rubber Manufacturers Association, Footwear Division, Mitchell J. Cooper, letter 256
Stark, Hon. Fortney H. (Pete), a Representative in Congress from the State of California, statement and attachment 192
Steinberg, David J., U.S. Council for an Open World Economy, Inc., statement 257
Sullivan, Harry E. B., American Legion, statement 201
Syntex Corp., Lawrence A. Kirkham, letter 257
Travis, Thomas G., International Center of Florida, letter 246
U.S. Council for an Open World Economy, Inc., David J. Steinberg, statement 257
Virgin Islands Rum Industries, Ltd., Donald C. Nelthropp, statement 260
Weiner, Leroy, Leather Products Coalition, statement 248
Williams, Walker A., Caribbeana Council, statement 209

CARIBBEAN BASIN ECONOMIC RECOVERY ACT

THURSDAY, JUNE 9, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 11 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing and a copy of the bill, H.R. 2769, follow:]

[Press release No. 6 of Friday, May 20, 1983]

HON. DAN ROSTENKOWSKI (D.-ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, AND HON. SAM M. GIBBONS (D.-FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCE A HEARING ON THE CARIBBEAN BASIN INITIATIVE, JUNE 9, 1983

The Honorable Dan Rostenkowski (D.-Ill.), Chairman of the Committee on Ways and Means, and The Honorable Sam M. Gibbons (D.-Fla.), Chairman of the Committee's Subcommittee on Trade, today announced a hearing on H.R. 2769 (introduced by Mr. Gibbons, for himself, Mr. Rostenkowski, Mr. Wright, Mr. Michel, Mr. Pickle, Mr. Rangel, Mr. Downey of New York, Mr. Fowler, Mr. Anthony, Mr. Conable, Mr. Archer, Mr. Vander Jagt, Mr. Philip M. Crane, Mr. Frenzel, Mr. Gradison, Mr. Moore, Mr. Campbell, and Mr. Sensenbrenner), the Caribbean Basin Economic Recovery Act, on Thursday, June 9, 1983. The hearing will be held in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.

H.R. 2769 incorporates the Caribbean Basin Initiative (CBI) transmitted to Congress by the President on February 22, 1983. The legislation is almost entirely the same as H.R. 7397, which was approved by the House of Representatives on December 17, 1982.

The CBI is a program of trade and tax incentives to promote economic development and greater stability in the Caribbean region. The legislation would establish a 12-year duty-free scheme for imports from qualifying Caribbean countries. Articles which are import sensitive in the context of our trade with these countries would be exempt from such treatment. In addition, eligible countries must meet strict criteria designed to protect our foreign policy and economic interests. There are also safeguards to protect against trade diversions from countries outside the region and to ensure protection against possible injury to domestic industries as a result of duty-free imports. Finally, the bill contains two important tax provisions: the first to rebate all excise taxes on imported rum to the treasuries of Puerto Rico and the Virgin Islands; the second to permit a deduction for attendance at conventions held in a qualifying Caribbean country or Bermuda, provided such country has entered into an exchange of information agreement with the United States.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by the close of business Monday, June 6, 1983. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102, Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Committee will not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Committee are requested to submit 200 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Committee or any written statement submitted for the record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit six copies of their statement, by the close of business, Thursday, June 16, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose during the course of the public hearing.

I

98TH CONGRESS
1ST SESSION

H. R. 2769

To promote economic revitalization and facilitate expansion of economic opportunities in the Caribbean Basin region.

IN THE HOUSE OF REPRESENTATIVES

APRIL 27, 1983

Mr. GIBBONS (for himself, Mr. ROSTENKOWSKI, Mr. WRIGHT, Mr. MICHEL, Mr. PICKLE, Mr. RANGEL, Mr. DOWNEY of New York, Mr. FOWLER, Mr. ANTHONY, Mr. CONABLE, Mr. ARCHER, Mr. VANDER JAGT, Mr. PHILIP M. CRANE, Mr. FRENZEL, Mr. GRADISON, Mr. MOORE, and Mr. CAMPBELL) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To promote economic revitalization and facilitate expansion of economic opportunities in the Caribbean Basin region.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Act".

TITLE I—DUTY-FREE TREATMENT

SEC. 101. AUTHORITY TO GRANT DUTY-FREE TREATMENT.

The President may proclaim duty-free treatment for all eligible articles from any beneficiary country in accordance with the provisions of this title.

SEC. 102. BENEFICIARY COUNTRY.

(a)(1) For purposes of this title—

(A) The term "beneficiary country" means any country listed in subsection (b) with respect to which there is in effect a proclamation by the President designating such country as a beneficiary country for purposes of this title. Before the President designates any country as a beneficiary country for purposes of this title, he shall notify the House of Representatives and the Senate of his intention to make such designation, together with the considerations entering into such decision.

(B) The term "entered" means entered, or withdrawn from warehouse for consumption, in the customs territory of the United States.

(C) The term "TSUS" means Tariff Schedules of the United States (19 U.S.C. 1202).

(2) If the President has designated any country as a beneficiary country for purposes of this title, he shall not terminate such designation (either by issuing a proclamation for

that purpose or by issuing a proclamation which has the effect of terminating such designation) unless, at least sixty days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

(b) In designating countries as "beneficiary countries" under this title, the President shall consider only the following countries and territories or successor political entities:

Anguilla	Honduras
Antigua and Barbuda	Jamaica
Bahamas, The	Nicaragua
Barbados	Panama
Belize	Saint Lucia
Costa Rica	Saint Vincent and the Grenadines
Cuba	Surinam
Dominica	Trinidad and Tobago
Dominican Republic	Cayman Islands
El Salvador	Montserrat
Grenada	Netherlands Antilles
Guatemala	Saint Christopher-Nevis
Guyana	Turks and Caicos Islands
Haiti	Virgin Islands, British

In addition, the President shall not designate any country a beneficiary country under this title—

(1) if such country is a Communist country;

(2) if such country—

(A) has nationalized, expropriated or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 per

centum or more beneficially owned by United States citizens,

(B) has taken steps to repudiate or nullify an existing contract or agreement with a United States citizen or a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or

(C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property, unless the President determines that—

(i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnership, or association,

(ii) good-faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of international law are in progress, or such country is

otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or

(iii) a dispute involving such citizen, corporation, partnership, or association, over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and

promptly furnishes a copy of such determination to the Senate and House of Representatives;

(3) if such country fails to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of United States citizens or a corporation, partnership or association which is 50 per centum or more beneficially owned by United States citizens, which have been made by arbitrators appointed for each case or by permanent arbitral bodies to which the parties involved have submitted their dispute;

(4) if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or is likely to have, a significant adverse effect on United States commerce, unless

the President has received assurances satisfactory to him that such preferential treatment will be eliminated or that action will be taken to assure that there will be no such significant adverse effect, and he reports those assurances to the Congress;

(5) if a government-owned entity in such country engages in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; and

(6) unless such country is a signatory to a treaty, convention, protocol, or other agreement regarding the extradition of United States citizens.

Paragraphs (1), (2), and (3) shall not prevent the designation of any country as a beneficiary country under this Act if the President determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary country under this title, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the economic conditions in such country, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country;

(4) the degree to which such country follows the accepted rules of international trade provided for under the General Agreement on Tariffs and Trade, as well as applicable trade agreements approved under section 2(a) of the Trade Agreements Act of 1979;

(5) the degree to which such country uses export subsidies or imposes export performance requirements or local content requirements which distort international trade;

(6) the degree to which the trade policies of such country as they relate to other beneficiary countries are contributing to the revitalization of the region;

(7) the degree to which such country is undertaking self-help measures to promote its own economic development;

(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively;

(9) the extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; and

(10) the extent to which such country is prepared to cooperate with the United States in the administration of the provisions of this title.

(d) General headnote 3(a) of the TSUS (relating to products of the insular possessions) is amended by adding at the end thereof the following paragraph:

"(iv) subject to the provisions in section 103 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.".

(e) The President shall, after complying with the requirements of subsection (a)(2), withdraw or suspend the designation of any country as a beneficiary country if, after such designation, he determines that as the result of changed circumstances such country would be barred from designation as a beneficiary country under subsection (b).

SEC. 103. ELIGIBLE ARTICLES.

(a)(1) Unless otherwise excluded from eligibility by this title, the duty-free treatment provided under this title shall apply to any article which is the growth, product, or manufacture of a beneficiary country if—

(A) that article is imported directly from a beneficiary country into the customs territory of the United States; and

(B) the sum of (i) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (ii) the direct costs of processing operations performed in a beneficiary country or countries is not less than 35 per centum of the appraised value of such article at the time it is entered.

For purposes of determining the percentage referred to in subparagraph (B), the term "beneficiary country" includes the Commonwealth of Puerto Rico and the United States Virgin Islands. If the cost or value of materials produced in the customs territory of the United States (other than the Commonwealth of Puerto Rico) is included with respect to an article to which this paragraph applies, an amount not to exceed 15 per centum of the appraised value of the article at the time it is entered that is attributable to such United States cost or value may be applied toward determining the percentage referred to in subparagraph (B).

(2) The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection including, but not limited to, regulations providing that, in order to be eligible for duty-free treatment under this title, an article must be wholly the growth, product, or manufacture of a beneficiary country, or must be a new or different article of commerce which has been grown, produced, or manufactured in the beneficiary country; but no article or material of a beneficiary country shall be eligible for such treatment by virtue of having merely undergone—

(A) simple combining or packaging operations, or

(B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article.

(3) As used in this subsection, the phrase "direct costs of processing operations" includes, but is not limited to—

(A) all actual labor costs involved in the growth, production, manufacture, or assembly of the specific merchandise, including fringe benefits, on-the-job training and the cost of engineering, supervisory, quality control, and similar personnel; and

(B) dies, molds, tooling, and depreciation on machinery and equipment which are allocable to the specific merchandise.

Such phrase does not include costs which are not directly attributable to the merchandise concerned or are not costs of manufacturing the product, such as (i) profit, and (ii) general expenses of doing business which are either not allocable to the specific merchandise or are not related to the growth, production, manufacture, or assembly of the merchandise, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions or expenses.

(b) The duty-free treatment provided under this title shall not apply to—

(1) textile and apparel articles which are subject to textile agreements;

(2) footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

(3) tuna, prepared or preserved in any manner, in airtight containers; or

(4) petroleum, or any product derived from petroleum, provided for in part 10 of schedule 4 of the TSUS.

(c)(1) As used in this subsection—

(A) The term "sugar and beef products" means—

(i) sugars, sirups, and molasses provided for in items 155.20 and 155.30 of the TSUS, and

(ii) articles of beef or veal, however provided for in subpart B of part 2 of schedule 1 of the TSUS.

(B) The term "Plan" means a stable food production plan that consists of measures and proposals designed to ensure that the present level of food production in, and the nutritional level of the population of, a beneficiary country will not be adversely affected by changes in land use and land ownership that will result if increased production of sugar and beef products is undertaken in response to the duty-free treatment extended under this title to such products. A Plan must specify such facts regarding, and such proposed actions by, a beneficiary country as the President deems necessary for purposes of carrying out this subsection, including but not limited to—

(i) the current levels of food production and nutritional health of the population;

(ii) current levels of production and export of sugar and beef products;

(iii) expected increases in production and export of sugar and beef products as a result of

the duty-free access to the United States market provided under this title;

(iv) measures to be taken to ensure that the expanded production of those products because of such duty-free access will not occur at the expense of staple food production; and

(v) proposals for a system to monitor the impact of such duty-free access on staple food production and land use and land ownership patterns.

(2) Duty-free treatment extended under this title to sugar and beef products that are the product of a beneficiary country shall be suspended by the President under this subsection if—

(A) the beneficiary country, within the ninety-day period beginning on the date of its designation as such a country under section 102, does not submit a Plan to the President for evaluation;

(B) on the basis of his evaluation, the President determines that the Plan of a beneficiary country does not meet the criteria set forth in paragraph (1)(B); or

(C) as a result of the monitoring of the operation of the Plan under paragraph (5), the President determines that a beneficiary country is not making a good faith effort to implement its Plan, or that the measures

and proposals in the Plan, although being implemented, are not achieving their purposes.

(3) Before the President suspends duty-free treatment by reason of paragraph (2) (A), (B), or (C) to the sugar and beef products of a beneficiary country, he must offer to enter into consultation with the beneficiary country for purposes of formulating appropriate remedial action which may be taken by that country to avoid such suspension. If the beneficiary country thereafter enters into consultation within a reasonable time and undertakes to formulate remedial action in good faith, the President shall withhold the suspension of duty-free treatment on the condition that the remedial action agreed upon be appropriately implemented by that country.

(4) The President shall monitor on a biennial basis the operation of the Plans implemented by beneficiary countries, and shall submit a written report to Congress by March 15 following the close of each biennium, that—

(A) specifies the extent to which each Plan, and remedial actions, if any, agreed upon under paragraph (4), have been implemented; and

(B) evaluates the results of such implementation.

(5) The President shall terminate any suspension of duty-free treatment imposed under this subsection if he determines that the beneficiary country has taken appropriate

action to remedy the factors on which the suspension was based.

(d) For such period as there is in effect a proclamation issued by the President pursuant to the authority vested in him by section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) to protect a price-support program for sugar beets and sugarcane, the importation and duty-free treatment of sugars, syrups, and molasses classified under items 155.20 and 155.30 of the TSUS shall be governed in the following manner:

(1)(A) For all beneficiary countries, except those subject to subparagaph (B) and paragraph (2), duty-free treatment shall be provided in the same manner as it is provided pursuant to title V of the Trade Act of 1974 (19 U.S.C. 2461 et seq.), at the time of the effective date of this title; except that the President upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the value limitation provided for in section 504(c)(1) of the Trade Act of 1974 on the duty-free treatment afforded to beneficiary countries under this section if he finds that such adjustment will not interfere with the price support program for sugar beets and sugarcane and is appropriate in light of market conditions.

(B) As an alternative to subparagraph (A), the President may at the request of a beneficiary country not subject to paragraph (2) and upon the recommendation of the Secretary of Agriculture, elect to permit sugar, sirups, and molasses from that country to enter duty-free during a calendar year subject to quantitative limitations to be established by the President on the quantity of sugar, sirups, and molasses entered from that country.

(2) For the following countries whose exports of sugar, sirups, and molasses in 1981 were not eligible for duty-free treatment because of the operation of section 504(c) of the Trade Act of 1974, the quantity of sugar, sirups, and molasses which may be entered in any calendar year shall be limited to no more than the quantity specified below:

Metric tons:	
Dominican Republic	780,000
Guatemala	210,000
Panama	160,000

Such sugar, sirups, and molasses shall be admitted free of duty, except as provided for in paragraph (3).

(3) The President, upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the quantitative limitations imposed under paragraph (1)(B) or (2) if he determines such action will not interfere with the price support program for

sugar beets and sugarcane and is appropriate in light of market conditions. The President, upon the recommendation of the Secretary of Agriculture, may suspend the duty free treatment for all or part of the quantity of sugar, sirups, and molasses permitted to be entered by paragraphs (1)(B) and (2) if such action is necessary to protect the price-support program for sugar beets and sugar cane.

(4) Any quantitative limitation imposed on a beneficiary country under paragraph (1)(B) or (2) shall apply only to the extent that such limitation permits a lesser quantity of sugar, sirups, and molasses to be entered from that country than the quantity that would be permitted to be entered under any other provision of law.

(e)(1) The President may by proclamation suspend the duty-free treatment provided by this title with respect to any eligible article and may proclaim a duty rate for such article if such action is proclaimed pursuant to section 203 of the Trade Act of 1974 or section 232 of the Trade Expansion Act of 1962. Any proclamation issued pursuant to section 203 of the Trade Act of 1974 that is in effect when duty-free treatment pursuant to section 101 of this title is proclaimed shall remain in effect until modified or terminated.

(2) In any report by the International Trade Commission to the President under section 201(d)(1) of the Trade Act of 1974 regarding any article for which duty-free treatment has been proclaimed by the President pursuant to this title, the Commission shall state whether and to what extent its findings and recommendations apply to such article when imported from beneficiary countries. With respect to any article which is subject to import relief in effect at the time duty-free treatment is proclaimed pursuant to section 101 of this title, the President may reduce or terminate the application of such import relief to imports from beneficiary countries prior to its otherwise scheduled date pursuant to the criteria and procedures of subsections (h) and (i) of section 203 of the Trade Act of 1974.

(3) For purposes of subsections (a) and (c) of section 203 of the Trade Act of 1974, the suspension of the duty-free treatment provided by this title shall be treated as an increase in duty.

(4) No proclamation which provides solely for a suspension referred to in paragraph (3) of this subsection with respect to any article shall be made under subsection (a) and (c) of section 203 of the Trade Act of 1974 unless the United States International Trade Commission, in addition to making an affirmative determination with respect to such article under section 201(b) of the Trade Act of 1974, deter-

mines in the course of its investigation under section 201(b) that the serious injury (or threat thereof) substantially caused by imports to the domestic industry producing a like or directly competitive article results from the duty-free treatment provided by this title.

(f)(1) If a petition is filed with the International Trade Commission pursuant to the provisions of section 201 of the Trade Act of 1974 regarding a perishable product and alleging injury from imports from beneficiary countries, then the petition may also be filed with the Secretary of Agriculture with a request that emergency relief be granted pursuant to paragraph (3) of this subsection with respect to such article.

(2) Within fourteen days after the filing of a petition under paragraph (1) of this subsection—

(A) if the Secretary of Agriculture has reason to believe that a perishable product from a beneficiary country is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing a perishable product like or directly competitive with the imported product and that emergency action is warranted, he shall advise the President and recommend that the President take emergency action; or

(B) the Secretary of Agriculture shall publish a notice of his determination not to recommend the imposition of emergency action and so advise the petitioner.

(3) Within seven days after the President receives a recommendation from the Secretary of Agriculture to take emergency action pursuant to paragraph (2) of this subsection, he shall issue a proclamation withdrawing the duty-free treatment provided by this title or publish a notice of his determination not to take emergency action.

(4) The emergency action provided by paragraph (3) of this subsection shall cease to apply—

(A) upon the proclamation of import relief pursuant to section 202(a)(1) of the Trade Act of 1974,

(B) on the day the President makes a determination pursuant to section 203(b)(2) not to impose import relief,

(C) in the event of a report of the United States International Trade Commission containing a negative finding, on the day the Commission's report is submitted to the President, or

(D) whenever the President determines that because of changed circumstances such relief is no longer warranted.

(5) For purposes of this subsection, the term "perishable product" means—

(A) live plants provided for in subpart A of part 6 of schedule 1 of the TSUS;

(B) fresh or chilled vegetables provided for in items 135.10 through 138.42 of the TSUS;

(C) fresh mushrooms provided for in item 144.10 of the TSUS;

(D) fresh fruit provided for in items 146.10, 146.20, 146.30, 146.50 through 146.62, 146.90, 146.91, 147.03 through 147.33, 147.50 through 149.21 and 149.50 of the TSUS; and

(E) fresh cut flowers provided for in items 192.17, 192.18, and 192.21 of the TSUS.

(g) No proclamation issued pursuant to this title shall affect fees imposed pursuant to section 22 of the Agricultural Adjustment Act (7 U.S.C. 624).

SEC. 104. MEASURES FOR PUERTO RICO AND UNITED STATES INSULAR POSSESSIONS.

(a) Effective with respect to articles entered on or after the effective date of this Act, general headnote 3(a) of the TSUS is amended—

(1) by amending clause (i)—

(A) by striking out "50 percent" and inserting in lieu thereof "70 percent", and

(B) by inserting after "total value", "(or more than 50 percent of their total value with re-

spect to articles described in section 103(b) of the Caribbean Basin Economic Recovery Act)"; and

(2) by amending clause (ii) by striking out "50 percent" and inserting in lieu thereof "70 percent".

(b) Item 813.31 of the TSUS is amended by striking out "4 liters" and inserting in lieu thereof "5 liters", and by inserting after "United States.", "and not more than 4 liters of which shall have been produced elsewhere than in such insular possessions,".

(c) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico or the United States Virgin Islands pursuant to section 7652(c) of the Internal Revenue Code of 1954 is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the United States Virgin Islands, then the President shall consider compensation measures and, in this regard, may withdraw the duty-free treatment on rum provided by this title. The President shall submit a report to the Congress on the measures he takes.

(d) Section 1112 of the Trade Agreements Act of 1979 (19 U.S.C. 2582) is repealed.

(e) No action pursuant to this title may affect any tariff duty imposed by the Legislature of Puerto Rico pursuant to section 319 of the Tariff Act of 1930 (19 U.S.C. 1319) on coffee imported into Puerto Rico.

(f) For purposes of chapter 1 of title II of the Trade Act of 1974, the term "industry" shall include producers located in the United States insular possessions.

(g) Any discharge from a point source in the United States Virgin Islands in existence on the date of the enactment of this subsection which discharge is attributable to the manufacture of rum (as defined in paragraphs (3) of section 7652(c) of the Internal Revenue Code of 1954) shall not be subject to the requirements of section 301 (other than toxic pollutant discharges), section 306 or section 403 of the Federal Water Pollution Control Act if—

(1) such discharge occurs at least one thousand five hundred feet into the territorial sea from the line of ordinary low water from that portion of the coast which is in direct contact with the sea, and

(2) the Governor of the United States Virgin Islands determines that such discharge will not interfere with the attainment or maintenance of that water quality which shall assure protection of public water supplies, and the protection and propagation of a balanced population of shellfish, fish, and wildlife, and allow recreational activities, in and on the water and will not result in the discharge of pollutants in quantities which may reasonably be anticipated to pose an unacceptable risk to human health or the environment because of

bioaccumulation, persistency in the environment, acute toxicity, chronic toxicity (including carcinogenicity, mutagenicity, or teratogenicity), or synergistic propensities.

SEC. 105. INTERNATIONAL TRADE COMMISSION REPORTS ON IMPACT OF THIS ACT.

(a) The United States International Trade Commission (hereinafter in this section referred to as the "Commission") shall prepare, and submit to the Congress and to the President, a report regarding the economic impact of this Act on United States industries and consumers during—

(1) the twenty-four-month period beginning with the date of enactment of this Act; and

(2) each calendar year occurring thereafter until duty-free treatment under this title is terminated under section 106(b).

For purposes of this section, industries in the Commonwealth of Puerto Rico and the insular possessions of the United States shall be considered to be United States industries.

(b)(1) Each report required under subsection (a) shall include, but not be limited to, an assessment by the Commission regarding—

(A) the actual effect, during the period covered by the report, of this Act on the United States economy generally as well as on those specific domestic indus-

tries which produce articles that are like, or directly competitive with, articles being imported into the United States from beneficiary countries; and

(B) the probable future effect which this Act will have on the United States economy generally, as well as on such domestic industries, before the provisions of this Act terminate.

(2) In preparing the assessments required under paragraph (1), the Commission shall, to the extent practicable—

(A) analyze the production, trade, and consumption of United States products affected by this Act, taking into consideration employment, profit levels, and use of productive facilities with respect to the domestic industries concerned, and such other economic factors in such industries as it considers relevant, including prices, wages, sales, inventories, patterns of demand, capital investment, obsolescence of equipment, and diversification of production; and

(B) describe the nature and extent of any significant change in employment, profit levels, and use of productive facilities, and such other conditions as it deems relevant in the domestic industries concerned, which it believes are attributable to this Act.

(c)(1) Each report required under subsection (a) shall be submitted to the Congress and to the President before the

close of the nine-month period beginning on the day after the last day of the period covered by the report.

(2) The Commission shall provide opportunity for the submission by the public, either orally or in writing, or both, of information relating to matters that will be addressed in the reports.

SEC. 106. FEASIBILITY STUDY REGARDING A CARIBBEAN TRADE INSTITUTE.

(a) The Secretary of State shall prepare a study regarding the feasibility of establishing a Caribbean Trade Institute in Harlem, New York City, supported by a combination of Federal and private funds.

(b) The study shall include, but not be limited to, an assessment of the extent to which, and the means by which, a Caribbean Trade Institute could—

(1) facilitate cooperation between public and private entities interested in engaging in or furthering Caribbean trade;

(2) serve as a catalyst for greater cultural exchange between the United States and Caribbean nations; and

(3) facilitate expansion of job opportunities both in the United States and the Caribbean Basin.

The study shall also include suggestions regarding the organization and staffing of such an institute.

(c) The study required by this section shall be submitted to the Congress within six months after the date of the enactment of this Act.

SEC. 107. EFFECTIVE DATE OF TITLE AND TERMINATION OF DUTY-FREE TREATMENT.

(a) EFFECTIVE DATE.—This title shall take effect on the date of the enactment of this Act.

(b) TERMINATION OF DUTY-FREE TREATMENT.—No duty-free treatment extended to beneficiary countries under this title shall remain in effect after September 30, 1995.

TITLE II—TAX PROVISIONS

SEC. 201. PAYMENT OF EXCISE TAXES COLLECTED ON RUM TO PUERTO RICO AND THE UNITED STATES VIRGIN ISLANDS.

(a) IN GENERAL.—Section 7652 of the Internal Revenue Code of 1954 (relating to shipments to the United States) is amended by inserting after subsection (b) the following new subsection:

"(c) SHIPMENTS OF RUM TO THE UNITED STATES.—

"(1) EXCISE TAXES ON RUM COVERED INTO TREASURIES OF PUERTO RICO AND VIRGIN ISLANDS.—All taxes collected under section 5001(a)(1) on rum imported into the United States (less the estimated amount necessary for payment of refunds and

drawbacks) shall be covered into the treasuries of Puerto Rico and the Virgin Islands.

"(2) SECRETARY PRESCRIBES FORMULA.—The Secretary shall, from time to time, prescribe by regulation a formula for the division of such tax collections between Puerto Rico and the Virgin Islands and the timing and methods for transferring such tax collections.

"(3) RUM DEFINED.—For purposes of this subsection, the term 'rum' means any article classified under item 169.13 or 169.14 of the Tariff Schedules of the United States (19 U.S.C. 1202).

"(4) COORDINATION WITH SUBSECTIONS (a) AND (b).—Paragraph (1) shall not apply with respect to any rum subject to tax under subsection (a) or (b).".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to articles imported into the United States after June 30, 1983.

SEC. 202. TREATMENT OF CARIBBEAN CONVENTIONS, ETC.

(a) GENERAL RULE.—Subsection (h) of section 274 of the Internal Revenue Code of 1954 (relating to attendance at conventions, etc.) is amended by adding at the end thereof the following new paragraph:

"(5) TREATMENT OF CONVENTIONS IN CERTAIN CARIBBEAN COUNTRIES.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'North American area' includes, with respect to any convention, seminar, or similar meeting, any beneficiary country if (as of the time such meeting begins)—

"(i) there is in effect a bilateral or multilateral agreement between such country and the United States providing for the exchange of information between the United States and such country, and

"(ii) there is not in effect a finding by the Secretary that the tax laws of such country discriminate against conventions held in the United States.

"(B) BENEFICIARY COUNTRY.—For purposes of this paragraph, the term 'beneficiary country' has the meaning given to such term by section 102(a)(1)(A) of the Caribbean Basin Economic Recovery Act; except that such term shall include Bermuda.

"(C) AUTHORITY TO CONCLUDE EXCHANGE OF INFORMATION AGREEMENTS.—The Secretary is authorized to negotiate and conclude an agreement for the exchange of information with any beneficiary country. An exchange of information

agreement shall provide for the exchange of such information (not limited to information concerning nationals or residents of the United States or the beneficiary country) as may be necessary or appropriate to carry out and enforce the tax laws of the United States and the beneficiary country (whether criminal or civil proceedings), including information which may otherwise be subject to nondisclosure provisions of the local law of the beneficiary country such as provisions respecting bank secrecy and bearer shares. The exchange of information agreement shall be terminable by either country on reasonable notice and shall provide that information received by either country will be disclosed only to persons or authorities (including courts and administrative bodies) involved in the administration or oversight of, or in the determination of appeals in respect of, taxes of the United States or the beneficiary country and will be used by such persons or authorities only for such purposes.

"(D) COORDINATION WITH SECTION 6103.—Any exchange of information agreement negotiated under subparagraph (C) shall be treat-

ed as an income tax convention for purposes of section 6103(k)(4).

"(E) FINDINGS PUBLISHED IN THE FEDERAL REGISTER.—Any finding by the Secretary under subparagraph (A)(ii) (and any termination thereof) shall be published in the Federal Register."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to conventions, seminars, or other meetings beginning after June 30, 1983.

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Chairman ROSTENKOWSKI. Today's hearing is on H.R. 2769, the Caribbean Basin Economic Recovery Act, which was introduced on April 27 by Mr. Gibbons, cosponsored by myself and several members of this committee.

This bill is based on a proposal submitted by the President in February and is virtually the same as the bill passed by this committee in the House of Representatives last year. The initiative contains several trade and tax provisions described to promote economic revitalization and expansion of economic opportunities in the Caribbean Basin area.

This initiative is not and should not be a partisan matter. Every administration in the postwar era has understood that the Caribbean Basin is critical to both our security interests and our long-term economic well-being. What sets the CBI apart from previous attempts to aid the region is that it is designed to let the region help sustain itself, not just through direct grants of aid but through the economic incentive of increased trade.

When members of the committee joined me last year in a 6-day visit to the region, we were most impressed with one constant message that we received from business, government, and labor leaders: "Give us the ability to help ourselves."

We were also impressed with the extent of U.S. economic involvement and by how much we stand to gain should the region become prosperous.

It is our expectation that, based upon our experience and the knowledge we will gain from today's hearing, we will be able to act on the CBI in the very near future.

Today, we will receive testimony from the administration witnesses, Members of Congress, and several labor and industry groups.

In view of the lengthy witness list and the limited time available for this hearing, I am going to ask all witnesses to summarize their prepared testimony. Your full testimony will be made part of our hearing record.

Mr. CONABLE. Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Conable.

Mr. CONABLE. I would like to thank you for calling this hearing near the beginning of the 98th Congress and would like to echo what you have already said. There is very strong bipartisan support for this proposal. Clearly, the details are concerns to members of this committee, but I want to pledge that the minority will cooperate with you in every way in trying to move this important legislation forward for the benefit not only of the Caribbean area, but for the benefit of our country as well.

Thank you.

Chairman ROSTENKOWSKI. Thank you, Mr. Conable.

Mr. Rangel is recognized.

Mr. RANGEL. Mr. Chairman, there is some question as to how the bill is reaching us from the Senate. I hope that we will again be able to pursuade the Members of Congress that it is within the best interest of the United States to respond to the needs of our historic friends in the Caribbean Basin. I sincerely hope that American firms who are doing business in this area understand that the task force of this committee had a chance to go down there was able to

see that with a strong economy, it was our businesses that became the beneficiary of Caribbean consumption. We should be getting more help from those American businesses doing business with these countries and perhaps some of our union people could better understand the problems.

I want to thank the Chair for speedily calling these hearings this year.

Chairman ROSTENKOWSKI. Thank you, Mr. Rangel.

Because of time constraints and the schedule that our colleague, Mr. Baltasar Corrada has—he has to catch an airplane—the Chair recognizes our colleague, Mr. Corrada.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER OF THE COMMONWEALTH OF PUERTO RICO

Mr. CORRADA. Thank you very much, Mr. Chairman and members of the committee. I would ask that my full statement be made part of the record.

Chairman ROSTENKOWSKI. Without objection.

Mr. CORRADA. I am pleased to appear again before this committee and to testify in support of the Caribbean Basin. At this time, I do not wish to go over the previous arguments that were made in support of the CBI before.

It is important, however, that we again take notice of the raised expectations of the countries in the region toward this program. That interest has not been diminished by the passage of time since President Reagan first enunciated the idea early last year. If anything, the countries are anxious to have the tools provided in this bill to allow them to carry on their own economic development programs.

The legislation introduced this year exempts canned tuna from the elimination of duties and tariffs provided for imports from the Caribbean Basin region. This protection for the U.S. tuna industry is vital to Puerto Rico, California, Hawaii, and American Samoa. We fought hard in this committee and on the floor of the House last year for protection of the domestic tuna canning industry.

In Puerto Rico alone, our production accounts for 40 percent of the tuna consumed in the United States, and is responsible for 13,000 direct and indirect jobs. Tuna canning is a highly mobile industry that would be susceptible to relocation in Caribbean Basin countries if duties were removed. The inclusion of canned tuna products under the exemption provision of the title I duty-free treatment of H.R. 2769 is extremely important to Puerto Rico and the other tuna canning areas of our country and I urge you not to delete that important feature from your bill.

The protection of the rum industry of Puerto Rico and the U.S. Virgin Islands also continues to be of concern to us. Puerto Rico supports the rum proposal sponsored by my colleague, Ron de Lugo and I, which we introduced as H.R. 3108, a bill already sponsored by 125 Members of the House. This alternative was developed after consultation between the Governments of the Virgin Islands and Puerto Rico and we urge you to incorporate the provisions of H.R. 3108 in your bill H.R. 2769.

I would appreciate the committee's assistance in urging the Office of the Special Trade Representative to negotiate with foreign countries the elimination of barriers to imports of Puerto Rican and Virgin Islands rum into Europe, Canada, and the Caribbean Basin area. It is only fair that at a time when we are removing barriers to entry of rum into the United States, we also seek to expand sales of our domestic rum into other markets.

Furthermore, the production of rum in Puerto Rico is very much dependent on the importation of molasses. It is important, therefore, that we ensure that a reliable source of supplies be maintained to enable us to continue producing rum. Since our primary sources of molasses are in the Caribbean, it is appropriate for the STR to assist us in securing our access to these molasses.

A third and final point of concern is the need to protect our agricultural products. The bill has detailed language regarding an accelerated section 201 petition which is very important to prevent injury to our agricultural industry. Again, I would like to stress the importance of closely monitoring our domestic agricultural production and avoiding an inundation of foreign farm products in our market to prevent injury to our farmers and workers.

Mr. Chairman, Puerto Rico continues to be deeply committed to the Caribbean Basin Initiative and the promise it offers countries in that region. In fact, Puerto Rico is leading the U.S. assistance to Jamaica. On June 1, the Prime Minister of Jamaica, Hon. Edward Seaga and the Governor of Puerto Rico, Hon. Carlos Romero-Barcelo, signed an agreement whereby Puerto Rico will assist Jamaica in a number of areas ranging from economic development to cultural exchange programs.

This assistance is being carried out in coordination with the State Department and funding is provided by the Agency for International Development. One of the contracts calls for Puerto Rican technicians to train 7,000 young workers in Jamaica in construction skills such as masonry, carpentry, electricity, and plumbing.

In addition, there are ongoing negotiations and programs between the Dominican Republic, Costa Rica, Haiti, the eastern Caribbean nations, and Puerto Rico to create and expand these kinds of assistance.

Mr. Chairman, it is important that, once CBI is enacted, we continue to closely monitor and assess the needs of these countries.

By that, I mean the foreign aid programs that will help these countries to have the needed infrastructure and provide adequate health and education facilities for its citizens. Only then will the promise of economic development embodied in the CBI be realized.

In closing, I want to restate the support and commitment of both Governor Romero-Barcelo and myself toward the approval and successful implementation of the Caribbean Basin Initiative.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. Chairman, Members of the Committee: I am pleased to appear again before this Committee to testify in support of the Caribbean Basin Initiative. During the extensive debate and consideration of the CBI by the Congress last year, ample evidence and testimony was presented about the need for this initiative in the region

as well as the importance of ensuring the continued economic vitality of the domestic areas of the United States, including its important possessions in the Caribbean. Those two objectives remain the driving force behind the consideration of this legislation.

At this time, I do not wish to go over the various arguments that were made in support of the CBI. It is important, however, that we again take notice of the raised expectations of the countries in the region toward this program. That interest has not been diminished by the passage of time since President Reagan first enunciated the idea early last year. If anything, the countries are anxious to have the tools provided in this bill to allow them to carry on their own economic development programs.

The legislation introduced this year exempts canned tuna from the elimination of duties and tariffs provided for imports from the Caribbean Basin region. This protection for the U.S. tuna industry is vital to Puerto Rico, California, Hawaii, and American Samoa. We fought hard in this Committee and on the floor of the House last year for protection of the domestic tuna canning industry. In Puerto Rico alone, our production accounts for 40% of the tuna consumed in the United States, and is responsible for 13,000 direct and indirect jobs. Tuna canning is a highly mobile industry that would be susceptible to relocation in Caribbean Basin countries if duties were removed. The inclusion of canned tuna products under the exemption provision of the Title I duty-free treatment of H.R. 2769 is extremely important to Puerto Rico and the other tuna canning areas of our country and I urge you not to delete that important feature from your bill.

The protection of the rum industry of Puerto Rico and the U.S. Virgin Islands also continues to be of concern to us. Puerto Rico supports the rum proposal sponsored by my colleague Ron de Lugo and I which we introduced as H.R. 3108, a bill already sponsored by 125 members of the House. This alternative was developed after consultation between the governments of the Virgin Islands and Puerto Rico and we urge you to incorporate the provisions of H.R. 3108 in your bill H.R. 2769.

In 1982, the collection of excise taxes on rum produced in Puerto Rico, which are rebated to the Treasury of Puerto Rico, accounted for $250 million which is about 11 percent of the Island's operating budget. Although H.R. 2769 (the CBI bill) also provides for the rebate to Puerto Rico and the Virgin Islands of the excise taxes collected in imports of foreign rum, we remain concerned about the future impact on our rum industry resulting from the removal of tariffs because the bill, as drafted protects the revenue but not the industry. I am encouraged, by the provision of Sec. 104(c) which gives the President the authority to withdraw duty-free treatment on rum "if the sum of the amounts of taxes covered to the treasuries of Puerto Rico or the United States . . . is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the U.S. Virgin Islands . . ." The importance of this provision must be underscored, particularly the need to be on the alert for any indication of detrimental effects on our rum industry. The concern is that remedies under this provision may come too late and after the damage has been done to the industry.

I would appreciate the Committee's assistance in urging the Office of the Special Trade Representative to negotiate with foreign countries the elimination of barriers to imports of Puerto Rico and Virgin Islands rum into Europe, Canada, and the Caribbean Basin area. It is only fair that at a time when we are removing barriers to entry of rum into the United States, we also seek to expand sales of our domestic rum into other markets.

Furthermore, the production of rum in Puerto Rico is very much dependent on the importation of molasses. It is important, therefore, that we ensure that a reliable source of supplies be maintained to enable us to continue producing rum. Since our primary sources of molasses are in the Caribbean, it is appropriate for the STR to assist us in securing our access to these molasses.

A third, and final point of concern is the need to protect our agricultural products. The bill has detailed language regarding an accelerated Sec. 201 petition which is very important to prevent injury to our agricultural industry. Again, I would like to stress the importance of closely monitoring our domestic agricultural production and avoiding an inundation of foreign farm products in our market to prevent injury to our farmers and workers.

Mr. Chairman, Puerto Rico continues to be deeply committed to the Caribbean Basin Initiative and the promise it offers countries in that region. In fact, Puerto Rico is leading the U.S. assistance to Jamaica. On June 1, the Prime Minister of Jamaica, Hon. Edward Seaga and the Governor of Puerto Rico, Hon. Carlos Romero-Barceló, signed an agreement whereby Puerto Rico will assist Jamaica in a number of areas ranging from economic development to cultural exchange programs.

This assistance is being carried out in coordination with the State Department and funding is provided by the Agency for International Development (AID). One of the contracts calls for Puerto Rican technicians to train 7,000 young workers in Jamaica in construction skills such as masonry, carpentry, electricity and plumbing. Another program has been going on for almost 20 years and trains Jamaican social workers in Puerto Rico. In October we are scheduled to complete the training of 32 officials of the Jamaica National Investment Promotions, Ltd. which is the Jamaican equivalent of our Economic Development Administration.

In addition, there are on-going negotiations and programs between the Dominican Republic, Costa Rica, Haiti the Eastern Caribbean nations and Puerto Rico to create and expand these kinds of assistance. Mr. Chairman, it is important that, once CBI is enacted, we continue to closely monitor and assess the needs of these countries. By that I mean the foreign aid programs that will help these countries to have the needed infrastructure and provide adequate health and education facilities for its citizens. Only then the promise of economic development embodied in the CBI will be realized. Although I understand that the jurisdiction over foreign aid programs does not fall on this Committee I wanted to take this opportunity to urge you to work closely with the Foreign Affairs Committee in ensuring the success of the program.

In closing, I want to restate the support and commitment of both Governor Romero-Barceló and myself toward the approval and successful implementation of the Caribbean Basin Initiative. I urge all of you to take prompt action toward that end and I look forward to a strengthening of the ties of friendship and economic development that bind our Nation, including Puerto Rico, to our neighbors in the Caribbean Basin.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Corrada.

Are there any questions?

Mr. GIBBONS. Mr. Chairman, I don't have a question, but I want to commend the distinguished gentleman from Puerto Rico and tell him that when this bill becomes law, we will monitor very closely its impact upon his area and upon the Virgin Islands and work with you and the people of Puerto Rico to make sure that they are not adversely affected.

Mr. CORRADA. Well, we appreciate your remarks and we will work very closely with the committee and you in following up and monitoring the situation as it evolves.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. Mr. Chairman, I want to thank the Congressman from Puerto Rico for the able way he protects our citizens living there. I hope that his contribution in forming a bill might enable the people in the Government of Puerto Rico to be our partners in revitalizing the economy of the Caribbean Basin.

It just seems to me that while some are fearful of the spread of communism in that area and the Soviet threat throughout Cuba, that the best showcase we can display for the American way of life would be the treatment of our citizens in Puerto Rico. Certainly when we have an opportunity to legislate, which we don't very often do, we should make the concerns of our citizens foremost.

So I hope beyond the CBI that we can think of other ways to showcase the American and capitalistic way of life in Puerto Rico rather than the rhetoric of our foreign policy.

Mr. CORRADA. I fully agree with those remarks and I think that Puerto Rico stands ready to assume that responsibility. In the past we have been interested, of course, in what is going on in the rest of the Caribbean Basin region, but not enough has been done and the talents of the people of Puerto Rico have not been fully utilized in terms of aiding and supporting the efforts of the United States in improving the relationship with the countries in that region.

Chairman ROSTENKOWSKI. Mr. Conable will inquire.

Mr. CONABLE. Mr. Chairman, I just want to echo what has already been said and say that the support that the gentleman gives to the Caribbean Basin Initiative is illustrative of his service here. It is clear that anything that elevates the Caribbean area will redound very much to the benefit of Puerto Rico since Puerto Rico is the center of not just the financial and industrial center of the Caribbean, but as has been said, a showpiece for the whole area.

Thus, as the area advances, Puerto Rico inevitably advances as well and we are fortunate to have Puerto Rico as an anchor for the Caribbean Basin Initiative. I know you will do everything you can to see that this regional advancement continues.

Chairman ROSTENKOWSKI. Mr. Jenkins will inquire.

Mr. JENKINS. Thank you, Mr. Chairman.

I thank you for your testimony. I appreciate your appearance before the committee and appreciate your support of the legislation.

Mr. CORRADA. The gentleman from Georgia has been of great help and support throughout the process of consideration of this legislation and we really appreciate his interest in supporting the well-being of Puerto Rico and the Virgin Islands.

Mr. JENKINS. Let me ask you this. Is it correct that over one-third of the rum shipments from Puerto Rico into the U.S. markets is bottled rum?

Mr. CORRADA. That is correct.

Mr. JENKINS. I would assume since that 30-some odd percent is the bottled rum, most of your job creation is in that segment of the rum industry. Is that correct?

Mr. CORRADA. That is correct, because of course, rum that is shipped in bulk shipments does not generate the number of jobs that the other aspects of the industry generate.

Mr. JENKINS. I understand the proposal that you and Mr. de Lugo have worked on and you continue to work with the administration in order to try to resolve this one issue. As I understand your proposal on the rum issue, you make the proposal that bottled rum from any of the Caribbean countries would have no tariff whatsoever. Is that correct?

Mr. CORRADA. That is correct. The proposal would entail eliminating the tariff from bottled rum and furthermore it would also entail not rebating to Puerto Rico and the Virgin Islands excise taxes collected on foreign rum, but rather creating a special economic development fund to aid some of the countries in the region.

Mr. JENKINS. If Puerto Rico ships rum into Canada or the European Market, is there a tariff?

Mr. CORRADA. There is a very high tariff both in Canada as well as in the European countries and also very high tariffs in countries in the Caribbean Basin that do not allow Puerto Rican rum to compete successfully with foreign rum in those markets.

Mr. JENKINS. So, in fact, your marketplace is the U.S. market?

Mr. CORRADA. Definitely. The U.S. market is by far our major market, but our rum definitely is a very high-quality rum and we are looking forward to being able to open up market opportunities in foreign countries as well. If these tariffs were eliminated in Canada, Europe, and the Caribbean Basin countries, there is no

question that sales of Puerto Rican rum would increase as a result of the elimination of those barriers.

Mr. JENKINS. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Anthony will inquire.

Mr. ANTHONY. Thank you, Mr. Chairman. I appreciate my good friend and colleague from Puerto Rico appearing. We have had the privilege of working closely together trying to resolve some of these very complex issues as it relates to Puerto Rico, the Virgin Islands and, of course, the Caribbean Basin countries.

In reference to the jobs that would be created in Puerto Rico because of one-third of the rum being bottled there, could you not make the same argument that would counter what labor's opposition has been to the bill? If we allowed bulk rum from the Caribbean Basin countries into the United States, and bottled that rum in the State of Florida wouldn't it create jobs for people who bottle the rum as well as manufacture and sell the glass bottles?

So if the bill is passed, it could be considered a job creation bill for Florida.

Mr. CORRADA. Well, the number of jobs created in terms of what it would mean for the U.S. labor force would be infinitesimal whereas the number of jobs that might be created in those Caribbean Basin countries if they are allowed to ship their bottled rum free of tariff, proportionately of course, would be much more significant to those countries in terms of the kind of development that we seek to obtain by the passage of the CBI.

Mr. ANTHONY. I understand that just because of the relative size of the economies and the population of the two.

Mr. CORRADA. But it would help somewhat, yes.

Mr. ANTHONY. Mr. Corrada, last year as you well know, the committee rejected your efforts along with Mr. de Lugo by a vote of 24 to 9, and the House rejected the same amendment by a vote of 226 to 171. Both the committee and the House were convinced that the CBI did not need your amendment. Rum is symbolic of the Caribbean Basin countries and if we take out that part of it, we will have gutted the bill. And although you are forced into a situation of representing your constituents, which you do quite well, let me ask you a suppositional-type question.

If the committee does not agree to put H.R. 3108 as an amendment to the legislation as introduced and you offer it on the floor and it is rejected, having stated your strong support for the Caribbean Basin Initiative and knowing that the art of politics and legislation is compromise, what then would be your final position as far as the Caribbean Basin legislation is concerned?

Mr. CORRADA. While obviously I would prefer that this proposal be enacted, I am on the record stating that you have to take the bill in its entirety and I am very much pleased with the exception of canned tuna which was not easy to obtain, but it is in the bill now. There are a number of protections for rum in the bill as it is now and while I would prefer the acceptance by the committee of the rum proposal, I could live with the bill that passed the House last year.

I believe that under the circumstances, Puerto Rico definitely would be supportive of the CBI legislation if it passes the House

very much in the same fashion that it passed it during the lame-duck session in December of last year.

I have to say that in all honesty, but I don't want that to detract from my support for the rum proposal. And, of course, I know that the Virgin Islands' Governor and the Governor from Puerto Rico feel very, very strongly about that proposal. I do, too, but of course, you must understand that the rum industry in Puerto Rico is much stronger and developed than that in the Virgin Islands and therefore we could live with the bill if it passes the same way it passed last year.

Mr. ANTHONY. Thank you.

Chairman ROSTENKOWSKI. There being no further questions, I want to thank our colleague, Baltasar, for joining us this morning. Thank you very much.

Mr. CORRADA. Thank you for the opportunity.

Chairman ROSTENKOWSKI. The Chair calls Ambassador Smith, Ambassador Eagleburger, and Secretary Chapoton.

Welcome to the committee, gentlemen. There certainly is not a stranger at the witness table today. We are all happy that you have joined us this morning to give us the benefit of the administration's views on the legislation presently before this committee. We are hopeful, naturally, that the committee will give favorable consideration to this legislation in a very short while.

With that, Ambassador Smith, if you would like to begin with your testimony, the committee is ready to receive it.

STATEMENT OF AMBASSADOR MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY CLAUD GINGRICH, GENERAL COUNSEL

Mr. SMITH. Thank you very much, Mr. Chairman.

I am here this morning on behalf of Ambassador Brock. As you know, he had plans to address this committee himself but, unfortunately, he is in the hospital recuperating from emergency surgery performed yesterday.

Ambassador Brock wanted me to convey to you, Mr. Chairman, his appreciation for your holding this hearing this morning on this vital piece of legislation and for your personal leadership. It is his sincere hope that expeditious consideration will be afforded the Caribbean Basin Initiative following this hearing.

Again, let me say that Ambassador Brock wishes he could be here this morning to restate his utmost personal commitment and that of the President to passage of the CBI.

Mr. Chairman, you had asked us to summarize our statements, and I shall do that.

As this committee is already aware, sir, the stakes in the Caribbean are high and our ability to influence events positively will be seriously diminished if the President's promise of meaningful development assistance cannot be implemented in the immediate future.

Our national economic and security interests in the Caribbean can be stated in more hard-nosed terms. Nearly one-half of our trade passes through the Caribbean and two-thirds of our energy imports move through the sea lanes of the Caribbean Sea.

We sell the Caribbean Basin around $3 billion more in goods and services each year than we import from them. We export to this region more machinery and capital goods per capita than to any other developing region in the world.

That being said, the economic picture in the Caribbean is miserable, and frankly, the situation is not improving, and further deterioration is possible.

There are over 6 million people living in the Caribbean today who are surviving on family incomes at or below the level of "minimum subsistence." Last year was so bad in the Caribbean that there was a net capital disinvestment in manufacturing.

Caribbean commodity exports continue to fair poorly in world markets. This has resulted in staggering rates of unemployment in the rural communities of the Caribbean. The region's once active agribusiness sector is all but moribund.

Even with economic recovery in this Nation well underway, world commodity prices remain far below the level at which the Caribbean would be earning enough from its commodity exports to pay for even half its import bill.

These countries are suffering severe and prolonged balance-of-payments crises. The administration has estimated a balance-of-payments shortfall in the region in 1982 of $800 million. The actual shortfall was $1 billion. For 1983, we are estimating a shortfall of $1.2 billion.

This group has a current debt burden of over $23 billion—more than half their collective GNP in a given year. Just to service that debt, they are forced to consume over 25 percent of their annual export earnings.

The economic problems of the Caribbean Basin will not be self-correcting once the developed nations achieve full economic revitalization. The Caribbean needs help, and I think we can afford to give it that help.

The Caribbean Basin nations have a total population which is around a fifth of our own. Yet in 1 week, we are able to produce the equivalent amount of goods and services that it takes all 28 Caribbean Basin nations a year to produce.

The Caribbean Basin Initiative contains trade liberalizing measures that will affect one-tenth of 1 percent of the total value of goods and services consumed in this country in a given year.

As you pointed out earlier, sir, this committee's delegation that visited the Caribbean last year came away from their meetings with the leadership of the Caribbean with the clear impression that no matter how we choose to view the CBI's potential impact, Caribbean leaders are convinced that if this vital piece of legislation were ignored the Caribbean would fall that much further into the economic quicksand in which they are hopelessly mired, and even more dependent on the generosity of their neighbors.

Later today, this committee will hear testimony asking you to further amend this legislation. You will be told that the bill should exclude more products from duty-free access, including rum, a product which is more closely associated with the Caribbean than is any product produced in that region.

Further, you will be asked to change the terms under which a country's exports will qualify for duty-free treatment.

The administration is unequivocably opposed to any further dilution of the benefits of the Caribbean Basin Initiative. Considering the extensive safeguards in this legislation, any changes would be unwarranted.

As I noted before, I suspect you will be asked to consider changing the rules of origin you designed last year under which countries qualify for duty-free treatment. We urge the committee to remember that the CBI free trade area won't be effective if it forces businesses to produce goods in an inefficient manner.

Regarding labor, within local labor organizations, there is broad support for the programs of the CBI. Local trade union leaders generally are puzzled and disappointed with those in the United States who argue that the CBI will be detrimental to U.S. workers.

Trade union leaders are confident that they are fully capable of dealing with both foreign and domestic investors in defense of the interests of their workers.

As you know, one of the criteria the President must take into account in determining whether to designate a country as eligible for duty-free treatment is the degree to which workers in beneficiary countries are afforded reasonable workplace conditions and enjoy the right to bargain collectively.

While responsibility for guaranteeing such fundamental human rights as the right to organize must ultimately rest with the government of each of the beneficiary countries, one of the basic objectives of this designation criterion, and the CBI in general, is to try to encourage continued progress in the area of workers' rights.

Since we strongly hold the view that the fundamentals of a collective bargaining system are necessary to prevent workers from being exploited, let me assure you, sir, that we will look very carefully at these countries when making recommendations to the President regarding that eligibility for the CBI program.

The integrated measures of the Caribbean Basin Initiative are directed toward what both donors and beneficiaries mutually believe to be the medium- and long-term needs of the Caribbean.

They are measures which will facilitate the Caribbean Basin playing a broader role in the inter-American trading system. They are measures which depend for their success upon the efforts of the beneficiaries themselves, thereby fostering a self-help outlook.

The CBI is neither a panacea for the Caribbean, nor will it prove the bane of the American worker. It is a practical trade and investment policy approach to treat the needs of a region of vital interest to all Americans.

Mr. Chairman, before concluding, I want to make an additional point on the elimination of U.S. duties on rum, a vital objective of this administration and the potential beneficiaries of the CBI. The Virgin Islands and its privately controlled rum distillery are seeking support for an amendment which would permanently exclude bulk rum from duty-free treatment.

On the face of it, this proposal has appeal, as demonstrated by the large number of cosponsors in this body. But this amendment preserves an extreme level of protection that is unnecessary and unwarranted. It will not promote business activity but could actually have the opposite effect.

With nothing to show for the CBI, Caribbean rum producers will continue to be captive to the large and extremely competitive producers in our territories.

The rum producing and nonrum producing members of the Caribbean community, Caricom, have publicly stated their opposition to the Virgin Islands proposal.

This year the U.S. taxpayer will help make it possible for the Virgin Islands distillery to buy molasses at close to one-half the world market price. The taxpayer will indirectly help the Puerto Rico and Virgin Island distillers' advertisement for their products in newspapers, magazines and other media.

And finally, the average U.S. consumer of alcoholic spirits this year will drink more than a quart of Puerto Rican or Virgin Islands rum but only the equivalent of 1 ounce of Caribbean rum.

The duty on bulk rum is about 50 percent of the appraised value of imported Caribbean rum which is much higher than the duties on comparable mass market alcoholic beverages. This extreme level of protection is unnecessary and unwarranted and is providing windfalls for one of the most successful and profitable of U.S. industries.

If the Congress is serious about revitalizing the Caribbean Basin sector, then it should not withhold the benefits of duty-free treatment on bulk rum from Caribbean producers.

Thank you very much, Mr. Chairman.

Chairman ROSTENKOWSKI. Thank you, Ambassador.

[The statement of Mr. Smith follows:]

STATEMENT OF AMBASSADOR MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. Chairman and members of the Committee on Ways and Means, last December, shortly after Chairman Rostenkowski and several members of this committee returned from a tour of five potential beneficiary countries of the Caribbean Basin Initiative, this committee acted favorably on the trade and investment elements of the President's Caribbean Basin Economic Recovery Act. The legislation this committee reported to the floor of the House of Representatives was passed by that Chamber without amendment. While this committee voted to amend the original legislation in several important ways, the bill passed by the House preserved the most important elements of the President's original program. The bill, as acted on by this committee in the 97th Congress, was transmitted to the 98th Congress by the President and introduced in the House of Representatives by a most distinguished group of Members. Today, on behalf of the President, I urge this committee to again act favorably and expeditiously on the Caribbean Basin Economic Recovery Act. As this committee is already aware, the stakes in the Caribbean are high and our ability to influence events positively will be seriously diminished if the President's promise of meaningful development assistance cannot be implemented in the immediate future.

The United States shares this small corner of the globe with some two dozen independent nations, which for convenience have been referred to as the nations of the Caribbean Basin. This is our third border. As would any nation, the United States wants as neighbors, friendly, healthy, stable democracies; nations whose citizens are permitted to live and work in an environment which is conducive to sustained economic growth and a peaceful and profitable coexistence with it neighbors.

Our national economic and security interests in the Caribbean can be stated in more hardnosed terms. Nearly one-half of our trade passes through the Caribbean and two-thirds of our energy imports move through the sea lanes of the Caribbean Sea. We sell the Caribbean Basin around $3 billion more in goods and services each year than we import from them. We export to this region more machinery and capital goods per capita than to any other developing region in the world.

It should also be recognized that today America is part Caribbean. The Caribbean Basin is currently the second largest source of immigrants to this country and many

of our cities and towns have populations whose family and business ties to the Caribbean are strong and vital.

The economic picture in the Caribbean is miserable and, frankly, the situation is not improving. There are over 6 million people living in the Caribbean today who are surviving on family incomes at or below the level of "minimum subsistence".

Last year was so bad in the Caribbean that there was a net capital disinvestment in manufacturing. Caribbean commodity exports continue to fair poorly in world markets. This has resulted in staggering rates of unemployment in the rural communities of the Caribbean. The region's once-active agri-business sector is all but moribund. Even with economic recovery in this Nation well underway, world commodity prices remain far below the level at which the Caribbean would be earning enough from its commodity exports to pay for even half its import bill.

These countries are suffering severe and prolonged balance-of-payments crises. The administration had estimated a balance-of-payments shortfall in the region in 1982 of $800 million. The actual shortfall was $1 billion. For 1983, we are estimating a shortfall of $1.2 billon. This group has a current debt burden of over $23 billion—more than half their collective GNP in a given year. Just to service that debt, they are forced to consume over 25 percent of their annual export earnings.

The worsening situation in the Caribbean has done nothing to help this country get out of its own economic troubles. Our exports to the region in 1982 declined by $155 million, the natural outcome from the fact that the Caribbean lost $700 million in U.S.-derived export earnings because of the sharp drop in commodity prices.

The economic problems of the Caribbean Basin will not be self-correcting once the developed nations achieve full economic revitalization. The Caribbean needs help, and I think we can afford to give it that help. The Caribbean Basin nations have a total population which is around a fifth of our own. Yet in 1 week, we are able to produce the equivalent amount of goods and services that it takes all 28 Caribbean Basin nations 1 year to produce. The Caribbean Basin Initiative contains trade liberalizing measures that will affect one-tenth of 1 percent of the total value of goods and services consumed in this country in a given year.

This country has the best educated, best trained, and most dynamic work force found anywhere on this globe. The disparity in the skills that can be brought to bear by the average American worker in comparison to the average Caribbean worker is enormous. And what of the disparity in the quality of the tools that are available to the U.S. and Caribbean workers.

This committee's delegation that visited the Caribbean last year came away from their meetings with the leadership of the Caribbean with the clear impression that no matter how we choose to view the CBI's potential impact, Caribbean leaders are convinced that if this vital piece of legislation were ignored, the Caribbean would fall that much further into the economic quicksand in which they are hopelessly mired.

Later today, this committee will hear testimony asking you to further amend this legislation. You'll be told that the bill should exclude more products from duty-free access, including rum, a product which is more closely associated with the Caribbean than is any product produced in that region. Further, you'll be asked to change the terms under which a country's exports will qualify for duty-free treatment.

The administration is unequivocably opposed to any further dilution of the benefits of the Caribbean Basin Initiative. Considering the extensive safeguards in this legislation, any changes would be unwarranted.

As I noted before, I suspect you'll be asked to consider changing the rules-of-origin you designed last year under which countries qualify for duty-free treatment. We urge the committee to remember that the CBI free-trade area won't be effective if it forces businesses to produce goods in an inefficient manner.

LABOR AND THE CBI

In November of last year, as part of the administration's implementation of the CBI, the Department of Labor sent a team of international labor experts to 10 of the beneficiary countries to help local authorities; local business and labor groups focus on the labor aspects of the CBI. Representatives of each of these groups stressed time and again their common concern for the worsening economic situation in the region. With rates of unemployment and underemployment in the region. With rates of unemployment and underemployment in the region ranging from 25 to 70 percent, both unions and employers were demonstrating their ability to work cooperatively in the backbreaking effort to create more jobs.

Within local labor organizations, there is broad support for the programs of the CBI. Local trade union leaders generally are puzzled and disappointed with those in the United States who argue that the CBI will be detrimental to U.S. workers. Trade union leaders are confident that they are fully capable of dealing with both foreign and domestic investors in defense of the interests of their workers.

As you know, one of the criteria the President must take into account in determining whether to designate a country as eligible for duty-free treatment is the degree to which workers in beneficiary countries are afforded reasonable workplace conditions and enjoy the right to bargain collectively.

While responsibility for guaranteeing such fundamental human rights as the right to organize must ultimately rest with the government of each of the beneficiary countries, one of the basic objectives of this designation criterion, and the CBI in general, is to try to encourage continued progress in the area of workers' rights.

The "Country Reports on Human Rights Practices for 1982" submitted to the Congress by the Department of State indicates that workers in several Caribbean Basin countries do not appear to enjoy the right to organize and bargain collectively. Since we strongly hold the view that the rudiments of a collective bargaining system are necessary to help prevent workers from being exploited, let me assure you that we will look very carefully at these particular countries when making recommendations to the President regarding their eligibility for the CBI program.

CONCLUSION

The integrated measures of the Caribbean Basin Initiative are directed toward what both donors and beneficiaries mutually believe to be the medium- and long-term needs of the Caribbean.

They are measures which will facilitate the Caribbean Basin playing a broader role in the inter-American trading system. They are measures which depend for their success upon the efforts of the beneficiaries themselves, thereby fostering a self-help outlook.

The CBI is neither a panacea for the Caribbean, nor will it prove the bane of the American worker. It is a practical trade and investment policy approach to treat the needs of a region of vital interest to all Americans.

Chairman ROSTENKOWSKI. The Chair would like to make the observation that Congressman Gibbons has gone to the floor. As you recognize, we have a vote on. Congressman Gibbons has gone over to answer the rollcall and will return so that he can chair the committee while other members go to the floor.

I know that your time is limited and I would like to continue with your testimony. But before introducing my good friend, Larry, I would just like you to know that we welcome you here. You don't visit with us often enough.

I have had the good fortune of being in your company when you represented our Nation in foreign lands, and, Mr. Ambassador, you are my kind of guy in the State Department.

With that, the committee is ready to hear your testimony.

STATEMENT OF HON. LAWRENCE S. EAGLEBURGER, UNDER SECRETARY FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. EAGLEBURGER. Thank you, Mr. Chairman.

I will try to stay your kind of guy by going as fast as I can.

Mr. CONABLE. Mr. Chairman, are you saying that you wear striped pants?

Mr. EAGLEBURGER. Mr. Chairman, I appreciate the chance to be here today.

I should start by saying that the Secretary of State feels that this is such an important bipartisan foreign policy initiative that, were it possible for him to be here himself, he would be. Unfortunately

he is, as you know, in Europe today at a NATO meeting. So I will do my best to fill in.

If I can summarize my statement, I should like to start by referring to some of the crucial points, we believe, which support the program.

First, Mr. Chairman, the United States is not isolated from the rest of the world. Indeed, to a large extent, we draw our strength and our prosperity from that of our neighbors and friends.

The Caribbean Basin is our neighborhood and, as such, it is a region of particular importance to us, as Mr. Smith has already indicated in some of the statistics that he gave to you.

Second, prosperity and peace in the Caribbean Basin mean greater security and new economic opportunities for the United States. Economic decline and political disruption in the Caribbean Basin, on the other hand, mean a continued need by the United States to devote resources to protect itself against the possibility of the area becoming dominated by hostile powers.

Prolonged social and economic disruption would also provoke an exodus of desperate people seeking a safe haven in the United States.

Third, there is no doubt that the countries of the Caribbean Basin desperately need this program. These small states lack the large domestic markets needed to encourage broad-based industrial and agricultural development. While some countries have begun to diversify during recent decades, their economies still depend heavily on a few primary exports such as coffee, sugar, bananas, bauxite and tourism.

As small countries, they are exceptionally vulnerable to the effects of international economic developments. As the economic situation in the Caribbean Basin has worsened, it has indirectly affected the United States.

Lower export earnings have made it difficult for many of the countries to service their external debts, a large part of which is held by U.S. banks. Economic dislocation has contributed to illegal immigration into this country. Our exports to the region fell by almost $300 million in 1982, a cost to our economy of some 10,000 jobs.

There is concern in some quarters, I know, about the impact of the initiative on employment in the United States. On this point, the critics make one fundamental assumption about trade and economic relationships with which I strongly disagree.

They seem to believe that what the Caribbean Basin gains will be lost by the United States. Trade is not a zero sum game; all economic history proves that. Economic exchange occurs because both parties have something to gain from the transaction. Consequently, the increase in prosperity which we are aiming to achieve in the Caribbean Basin will not come at the expense of the U.S. economy. The jobs created in the Caribbean Basin will not mean that an equivalent number of jobs will be lost in the United States.

On the contrary, the increased prosperity of Caribbean Basin countries will mean both an increase in jobs for their own people at home, and thus reduced emigration, and an increase in their demand for U.S. exports. The results on both counts should be additional jobs for the unemployed.

Admittedly, there are some issues of transition and adjustment which must be addressed, but this legislation does that. There are safeguard provisions which allow for reimposition of the duty in cases where U.S. industries or workers are threatened with serious injury. Rules-of-origin requirements will prevent mere pass through or simply assembly operations which do not involve significant local value added.

The legislation passed by the House last year excludes a number of politically sensitive products. Any further product exceptions or weakening of the economic provisions of this legislation would, in my view, be unnecessary and, more importantly, would result in a program with more promise than performance.

If we want to help our neighbors, let us do it effectively. We need to give these small economies real incentives. Incentives which are comprehensive, simple to understand and take advantage of, and which will cover long enough term to provide stable expectations.

This program also deserves your support because it represents a new departure in our relationship with developing countries. It is a program which is derived from an intensive dialog with both potential beneficiaries and other donors. Consequently, it represents far more than just a unilateral U.S. effort. The legislation before us is a crucial part of an international program, but only a part.

Other countries have contributed significantly both in terms of financial assistance and/or new trade and investment opportunities. These efforts include not only those of international institutions such as the World Bank and the Inter-American Development Bank and of developed countries such as Canada, but also of three countries which have their own particular development problems: Columbia, Mexico, and Venezuela.

Another way in which this program is a departure from our traditional approach to development is that it integrates aid, trade and tax measures into a complementary and mutually reinforcing package.

We were, as I am sure you know, pleased and grateful that the Congress last year passed the $350 million appropriation for the Caribbean Basin Initiative.

But as the President said when he requested the special CBI appropriation, financial assistance is only a short-term remedy which must be accompanied by measures in other areas.

Indeed, development will not occur on a self-sustaining basis, unless it is a broad-based process which draws the marginal sectors of these societies into the development process while preserving basic individual rights and freedoms.

Mr. Chairman, Secretary Shultz earlier referred to the Caribbean Basin Initiative as a farsighted effort to get ahead of history in this turbulent region. The recent course of events in Central America and the Caribbean certainly illustrates that the effort is anything but premature.

Indeed, we cannot afford to lose any more time in getting it underway. As the Secretary has said, "failure to pass the CBI would extinguish the hopes that have been raised in the region" that the United States is willing to give significant help to foster economic and social progress in the Caribbean Basin.

Thank you, sir.

Chairman ROSTENKOWSKI. Thank you, Mr. Secretary.
[The statement of Mr. Eagleburger follows:]

STATEMENT OF UNDER SECRETARY OF STATE LAWRENCE S. EAGLEBURGER

Mr. Chairman. It is a pleasure for me to appear before this Committee to testify on the Caribbean Basin Initiative. The Secretary asked me to express his regrets that he would not be able to appear himself. He is attending a NATO Foreign Ministers meetings in Paris. Both he and I—indeed the Administration as a whole—place a great deal of importance on this program and on the need for rapid action. It has already been too long delayed.

The House last December passed the Caribbean Basin Initiative, and I, therefore, hope that this Committee and this Chamber will be able to act expeditiously. The House gave a large bipartisan vote to the legislation last year, which is a clear indication that the importance of the Initiative to the United States national interest is already widely understood. But let me just recall some of the crucial points in favor of the program.

First, although the United States is an enormously powerful and prosperous nation, we are not isolated from the rest of the world. Indeed, to a large extent we draw our strength and our prosperity from that of our neighbors and friends. The Caribbean Basin is our neighborhood, and as such it is a region of particular importance to us. By this time, many in the Congress already know some of the facts regarding our interdependence with the region; for example, that half of our trade, including two-thirds of our energy trade, passes through the sea lanes of the Caribbean Basin. Our historical, social and economic ties also are extremely strong. It is the second largest source of immigration to the United States, and offers a $6 billion market for our goods. Clearly, its prosperity and peacefulness are not just of altruistic interest to us; the lives of our citizens are and will continue to be deeply affected by what happens there.

Prosperity and peace in the Caribbean Basin mean greater security and new economic opportunities for us in the United States, and social exchanges based on mutual interest enriching all our societies and cultures. Economic decline and political disruption in the Caribbean Basin, on the other hand, mean a continued need by the United States to devote resources to protect itself against the possibility of the area being dominated by hostile powers. Prolonged social and economic disruption would also provoke an exodus of desperate people seeking a safe haven in the United States. Our nation has gained enormously from the skills and energies of political and economic refugees. It is clearly in our and other nations' interest, however, to promote cultural and economic interchange without the terrible personal suffering that massive refugee movements produce.

There is no doubt that the countries of the Caribbean Basin desperately need this program. These small states lack the large domestic markets needed to encourage broad-based industrial and agricultural development. While some countries have begun to diversify during recent decades, their economies still depend heavily on a few primary exports such as coffee, sugar, bananas, and bauxite, and on tourism. As small countries they are extraordinarily vulnerable to the effects of international economic developments.

The economies of this region have been devastated by the worldwide economic recession of the past several years. In almost every country, the past two years have seen falling income and rising unemployment. Shrinking government revenues have delayed vital development projects and social programs. The U.S. recession caused a steep drop in the tourism revenues so essential to many caribbean countries. In Central America, recession has been exacerbated by violence, causing a severe drop in intra-regional trade and bringing new investment to a standstill. As the economic situation in the Caribbean Basin has worsened, it has indirectly affected the United States. Lower export earnings have made it difficult for many of the countries to service their external debts, a large part of which is held by U.S. banks. Economic dislocation has contributed to illegal immigration into this country. Our exports to the region fell by almost $300 million in 1982, a cost to our economy of some 10,000 jobs.

As I noted before, I believe that there is already a broad understanding of our interdependence with the Caribbean Basin, and hence of the need for the United States to act to help. However, there is also concern in some quarters about the impact of the Initiative on employment in the United States. On this point the critics make one fundamental assumption about trade and economic relationships which I strongly believe to be false. They seem to believe that what the Caribbean Basin gains will be lost by the United States. Trade is not a zero sum game. All

economic history proves it. Economic exchange occurs because both parties have something to gain from the transaction. Consequently, the increase in prosperity which we are aiming to achieve in the Caribbean Basin will not come at the expense of the United States economy. The jobs created in the Caribbean Basin will not mean that an equivalent number of jobs is lost in the United States. On the contrary, the increased prosperity of Caribbean Basin countries will mean both an increase in jobs for their own people at home (thus reduced emigration) and an increase in their demand for United States exports. The results on both counts should be additional jobs for our unemployed.

There are other critics who recognize that while increased trade may be beneficial over the long-term to the United States as a whole, certain groups within the United States might be adversely affected—notably industries particularly sensitive to imports. There are some issues of transition and adjustment which must be addressed. This legislation does that. There are safeguard provisions which allow for reimposition of the duty in cases where United States industries or workers are threatened with serious injury. Rules-of-origin requirements will prevent mere pass-through or simple assembly operations which do not involve significant local value added. The legislation passed by the House last year excludes a number of politically sensitive products. Any further product exceptions or weakening of the economic provisions of this legislation would, in my view, be clearly unnecessary, and more importantly would result in a program with more promise than performance.

If we want to help our neighbors, then let us do it effectively. We need to give these small economies real incentives—incentives which are comprehensive, simple to understand and take advantage of, and sufficiently long-term to provide stable expectations. The opening of our large market to Caribbean Basin countries for a twelve-year period without duty impediments is a bold and effective step. In passing such a program, this Congress will help provide a powerful new set of opportunities for the Caribbean Basin countries, and at the same time will provide some rich new opportunities to our own industries and workers. The threat which increased imports from the Caribbean Basin pose to us is minimal. Remember that the Caribbean Basin economies are equal to only 2 percent of our Gross National Product, and our total imports from the region are less than four percent of our global imports. The products that would be extended duty-free entry as a result of this legislation comprise only one-half of 1 percent of our total imports. Clearly then, the risk of injury to the U.S. is small. The Caribbean Basin countries can experience a very significant increase in production and exports without having an appreciable impact on the U.S. economy. I hope and expect that this increase will occur both through expansion of existing production and through entirely new production in sectors in which there is no trade at present.

All economic decisions involve some risk, but if we are paralyzed into inaction or into meager action by an excessive fear of risk, then we end up with not only stagnation but even less than the status quo. To move forward—even to stand still—we must work in favor of change, the kind of change which benefits ourselves and our neighbors.

This program also deserves your support because it represents a new departure in our relationship with developing countries. It is a program which is derived from an intensive dialogue with both potential beneficiaries and other donors. Consequently, it represents far more than just a unilateral U.S. effort. The legislation before you is a crucial part of the international effort—but only a part. Other countries have contributed significantly both in terms of financial assistance and/or new trade and investment opportunities. These efforts include not only those of international institutions such as the World Bank and the Inter-American Bank, and of developed countries such as Canada, but also of three countries which have their own particular development problems—Colombia, Mexico and Venezuela.

Perhaps even more importantly, the efforts of the donor countries are being supported and magnified by the domestic efforts of the beneficiary countries. Despite their limited resources and the meager life styles that many of their people experience, these countries are undertaking some extremely painful economic reforms. They recognize that coherent and economically rational domestic policies are essential to put them on the road to self-sustaining growth. External assistance provides only the indispensable margin of resources and support to help make their efforts succeed. I want to emphasize the sacrifices which many of these countries are already making to place themselves on the road to recovery and stable, continued growth.

Another way in which this program is a departure from our traditional approach to development is that it integrates aid, trade and tax measures into a complementary and mutually reinforcing package. I was pleased last summer when the Con-

gress approved the assistance portion of the President's original Caribbean Basin proposals. All of the $350 million that was appropriated already has been obligated for use by the private sector in those countries with the most serious financial problems. This assistnace has helped many established, productive private firms to continue operating and to obtain needed raw materials and equipment from the United States. But, as the President said when he requested the special CBI appropriation, financial assistance is only a short-term remedy which must be accompanied by measures in other areas. Indeed, development will not occur on a self-sustaining basis unless it is a broad-based process which draws the marginalized sectors of these societies into the development process while preserving basic individual rights and freedoms. We believe that such development can only be achieved through a strategy which encourages private initiative and investment, which opens markets and stimulates production beyond the limitations of these small, traditional economies. This legislation is the embodiment of that belief.

I have focused on the trade provisions because the trade incentive is the heart of the bill. I would like to mention, however, other important features. As you know, we had originally requested an investment tax credit as an additional spur to foreign investment. This committee substituted instead the convention tax deduction, a provision which was enthusiastically welcomed by the countries in the Basin as a positive stimlus to tourism. Other provisions, which I have not focused upon today but which are very important, strengthen the economies of Puerto Rico and the Virgin Islands. These include the rebate of excise taxes on rum, treating inputs from Puerto Rico and the U.S. Virgin Islands as Caribbean content in meeting the rules of origin requirements and allowing industries in Puerto Rico and the Virgin Islands to petition for import relief. All of these features of the bill are essential to our comprehensive policy toward the region.

Mr. Chairman, let me close by repeating that this is a strong program, carefully designed to promote the interests both of the United States and the nations of the Caribbean Basin. It is a necessary program, one that will make a crucial difference to Caribbean Basin countries in turning their ecomomies and their societies around. And, finally, it is a program whose implementation is long overdue. It is now 15 months since the President sent his original proposal to the Congress.

Secretary Shultz earlier referred to the Carribean Basin Initiative as a farsighted effort to get ahead of history in this turbulent region. The recent course of events in Central America and the Carribean certainly underlines that the effort is anything but premature. Indeed we cannot afford to lose any more time in getting it underway. As the Secretary has said, failure to pass the CBI "would extinguish the hopes that have been raised in the region that the United States is willing to give significant help to foster economic and social progress in the Carribean Basin."

Chairman ROSTENKOWSKI. We are now ready to receive the testimony of Hon. John E. Chapoton, Assistant Secretary of the Treasury for Tax Policy.

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. CHAPOTON. Thank you, Mr. Chairman. I will be quite brief.

I would first like to join in the statements made by these two gentlemen on the importance of this legislation and Treasury's strong feelings on the urgency of action on the legislation.

Let me limit my comments to one aspect of the bill before you and a modification that we suggested before the Senate Finance Committee, and we would renew it before this committee.

As you know, the bill would cause Caribbean Basin countries and Bermuda to be treated as part of the North American area for purposes of allowing deductions attending conventions if an executive agreement to exchange tax information is entered into with the United States. The information exchange agreements would have to cover both civil and criminal information. The bills are quite specific on what latitude the Secretary of the Treasury has in negotiating such information, but it makes it clear that the exchange of

information agreement would have to take precedence over local law restrictions on bank account secrecy and bearer shares.

The administration has supported a modification in that regard, giving the President authority to a limited waiver for civil tax purposes only.

The waiver would provide that the beneficiary country would not be required to pierce bearer shares or bank secrecy in exchanging information for civil tax purposes, if the President determined that such a waiver is in the national security interest of the United States and if the Secretary of the Treasury determined that an exchange of information agreement satisfying this modified standard would assist the administration in enforcement of the U.S. tax laws.

The obligation to exchange information in response to a request for criminal tax purposes would be unchanged even where the waiver was exercised and the exchange of information with respect to civil matters would be fully enforced subject only to the nondisclosure laws of the country with respect to bank accounts and share ownership.

We think this is a good modification. It does add flexibility to the President's position in dealing with these countries and authorizing a waiver of the exchange of information in this regard.

It does protect the U.S. tax law position in that we must find that the exchange of information agreement, even as modified, would provide significant assistance and administration of our tax laws.

So we would support that amendment, Mr. Chairman, and I think that is the only point I will mention in the bill.

Thank you, sir.

[The statement of Mr. Chapoton follows:]

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY (TAX POLICY), DEPARTMENT OF THE TREASURY

Mr. Chairman and Members of the Committee: I am pleased to have the opportunity to appear before your Committee in support of the Caribbean Basin Economic Recovery Act, introduced as H.R. 2769. H.R. 2769 contains the trade and tax portions of the President's Carbbean Basin Initiative (CBI). The CBI represents an important commitment by the United States to the economic development of the countries of the Caribbean Basin, which include Guyana, Surinam, the countries of Central America and the island nations of the Caribbean.

I will address my remarks only to the tax provisions in Title II of the bill. The tax component of the legislation provides favorable tax treatment for business expenses incurred in attending a convention, seminar or similar meeting in a Caribbean Basin country, including Bermuda, if the country satisfies certain conditions that I will describe below. The bill also contains a provision to ensure that the tariff reductions on rum proposed in the bill will not adversely affect the revenue sources of Puerto Rico and the Virgin Islands.

Mr. Chairman, this Committee previously considered the tax provisions of this bill in December of last year. On December 17, 1982, the House passed H.R. 7397. The tax provisions of H.R 7397 were substantially identical to those in H.R. 2769, except that the effective dates for the tax provisions have been changed from December 31, 1982 to June 30, 1983.

DEDUCTIONS FOR BUSINESS EXPENSES INCURRED ATTENDING CONVENTIONS IN QUALIFYING COUNTRIES

The bill would cause Caribbean Basin countries designated by the President as eligible for the benefits of the Act, and Bermuda, to be treated as part of the "North American area" for the purpose of allowing deductions for ordinary and necessary

business expenses of attending conventions and similar meetings held in these countries if the country where the meeting is held has entered into an executive agreement to exchange tax information with the United States and does not discriminate under its tax laws against conventions held in the United States (a "qualifying country"). While I have previously testified against a series of proposals which would further relax the rules for deducting expenses related to foreign conventions, there are two reasons why the Treasury Department supports H.R. 2769, with a modification I will discuss later in my testimony.

First, this legislation is a carefully crafted package which addresses a problem of overriding national interest. As Secretary Shultz has pointed out in testimony before the Senate Finance Committee, there is an economic crisis in the Caribbean region that threatens our well-being. The world economic slowdown of the last few years has severely affected these countries, reducing demand for and prices of the exports they must sell to purchase imports such as oil and other essential products. Tourism, an important source of foreign exchange, has also suffered. The foreign convention provisions of this bill directly address this problem. A strong tourism industry will not only help alleviate the current economic crisis but will also finance the investment that is crucial for stable, long run economic growth.

The second reason for Treasury's support is that the bill's provisions requiring agreements for reciprocal exchange of tax information as a condition of the foreign convention deduction insure that the U.S. tax system will be strengthened, not weakened, by passage of this legislation. It is in this context that Treasury supports this legislation.

THE BILL'S EXCHANGE OF INFORMATION PROVISIONS

H.R. 2769 authorizes the Secretary of the Treasury to negotiate and conclude the exchange of information agreements called for in the bill. While the Secretary is accorded discretion regarding what kinds of information will be included within the scope of the exchange of information provisions, the Act imposes certain standards for such agreements.

The exchange of information provisions in the agreements must include within their scope tax information pertaining to citizens, residents and corporations of the United States and the country that is a party to the agreement. The agreement also would have to cover information pertaining to "third-country persons," that is, nationals or residents of countries other than the United States or the country that is a party to the agreement. Under the bill, the exchange of information agreement would have to take precedence over local law restrictions on disclosure of information regarding bank accounts or bearer share ownership. An exchange of information agreement that accomplishes the objectives of these standards would comply with the mandate of the bill.

The exchange of information agreements will be terminable on reasonable notice by either party. Deductions would not be allowed for business conventions or similar meetings begun after the termination of an exchange of information agreement.

It is expected that the exchange of information agreement will generally become effective on signature. The text of the agreements will be transmitted to Congress not later than sixty days after the agreement has been signed in accordance with the prescriptions of the Case Act (1 U.S.C. section 112b).

Exchange of tax information assists the administration of tax laws both the United States and the qualifying country. The tax administrators of qualifying countries will have access to information from the Internal Revenue Service regarding their taxpayers who engage in economic activities in the United States and thereby should strengthen their own tax administration. This self-help aspect of the measure is consistent with the overall concept of the Caribbean Basin Initiative.

Our concerns are not limited to tax havens. As international economic transactions increase so does the importance of international cooperation in tax administration and enforcement.

THE NEED FOR INTERNATIONAL EXCHANGE OF TAX INFORMATION

As you are aware, the United States uses a self-assessment system in its collection of taxes. Each taxpayer files a return and pays the amount due on the return without governmental assessment. This is unlike the procedure in many foreign countries where the government sends each taxpayer an assessment of tax due.

Our self-assessment system relies in significant part on the perception by taxpayers that the tax system is equitable and that each person is paying his fair share. This Committee recognized that noncompliance undermines the perceived and actual equity of our tax system in its work on the Tax Equity and Fiscal Responsi-

bility Act of 1982. In addition, noncompliance reduces the revenues obtained from the existing tax base.

The enforcement of our self-assessment system relies on a carefully targeted audit and examination program and, in appropriate cases, on application of criminal enforcement sanctions. A key to an effective examination program is access to information. Information allows our examiners to confirm the information reported on a return and to ferret out those who would evade paying their share of taxes. This is as true for international transactions as it is for purely domestic transactions.

The United States' tax interest under the Internal Revenue Code (the "Code") extends beyond its borders. Under the subpart F, foreign personal holding company and foreign investment company provisions of the Code, a U.S. shareholder in a foreign corporation that is more than fifty percent owned by U.S. persons may be subject to tax on income measured by the earnings of the foreign corporation, even though it may not conduct any business in the United States. In addition, the Internal Revenue Service has broad powers under section 482 of the Code to reallocate income, deductions or credits between two or more businesses owned or controlled directly or indirectly by the same interests in intenational as well as domestic transactions. Administration of these provisions requires that the United States be able to obtain information with respect to international transactions.

The need for international exchange of tax information also extends to information which may be used in criminal tax cases. In most international transactions it would be impossible to uncover unreported income without the assistance of the foreign country in obtaining information which permits tracing funds earned in the transaction.

The ability of the United States to obtain documents or testimony for tax purposes from foreign countries is limited by the reach of U.S. laws. However, information may be obtained under our bilateral income tax treaties. The United States enters into tax treaties with countries which impose income taxes. These countries are generally cooperative in exchanging tax information of all kinds with the United States. In the case of exceptions, we carefully evaluate whether the benefits obtained by the United States under the treaty outweigh our concerns regarding cooperation in matters of tax administration and enforcement. It is appropriate to consider the importance of exchange of information in light of overall U.S. policy goals.

The exchange of information agreements provided for in H.R. 2769 would require that we obtain more information than we presently receive under the exchange of information provisions of some of our tax treaties. One reason for this is that the foreign convention deduction provided by H.R. 2769 represents the unilateral extension of a tax incentive by the United States. In that regard, countries that receive the benefit of U.S. tax incentives should generally be asked to cooperate in matters of tax administration and enforcement. This is necessary to preserve the integrity of the U.S. tax system.

The exchange of information provisions required by this legislation are broad. We do not, however, ask other countries to do more for us than we would do for them.

PRESIDENTIAL WAIVER AUTHORITY

The Administration supports a limited modification to H.R. 2769 with respect to the exchange of information provision. This modification would authorize a Presidential waiver of the requirement that an exchange of information agreement obligate a beneficiary country to exchange information despite nondisclosure provisions of local law regarding bank account information or beneficial ownership of bearer shares. The standard could be waived for information requested only for civil tax purposes if (i) the President determines that such a waiver is in the national security interest of the United States, and (ii) the Secretary of the Treasury determines that an exchange of information agreement satisfying such modified standards would assist the administration and enforcement of U.S. tax laws.

The obligation to exchange information in response to a request for criminal tax purposes would be unchanged by the modification. Thus, under an exchange of information agreement a country would be obligated to exchange information, even if such information is otherwise subject to nondisclosure laws regarding bank accounts or share ownership, in response to a request made in connection with a criminal tax investigation or proceeding.

While the Administration would, of course, prefer a comprehensive exchange of information agreement, there may be circumstances in which national security interests would be served by allowing some flexibility with respect to certain of the information exchange standards. The purpose of the modification, adopted by the

Senate Finance Committee as part of the Committee amendment to H.R. 2973, is to authorize the President to waive the exchange of information standard described above to accommodate overriding national security interests. The proposed change would require, however, that an exchange of information agreement subject to the modified standards provide significant assistance in the administration and enforcement of U.S. tax laws. This limited modification of the exchange of information provision provides the necessary flexibility to respond to legitimate national security concerns.

PUERTO RICO AND THE U.S. VIRGIN ISLANDS

As an essential counterpart to the proposals to assist Caribbean Basin countries, the bill includes an important revenue measure for Puerto Rico and the U.S. Virgin Islands. This measure will ensure that the development of the rum industry in the Caribbean Basin induced by the tariff reductions on rum provided in the bill will not reduce a major source of revenues to Puerto Rico and the Virgin Islands.

Under present law, the Internal Revenue Code imposes an excise tax on rum produced in or brought into the 50 States or the District of Columbia. All U.S. excise taxes collected on rum producted in Puerto Rico or the Virgin Islands and transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) are paid to Puerto Rico and the Virgin Islands, respectively. These U.S. excise taxes supply about 10 percent of Puerto Rico's annual government budget, and about 20 percent of the annual budget of the Virgin Islands.

In order to maintain this revenue source for Puerto Rico and the Virgin Islands, the legislation provides that all excise taxes collected on rum imported into the United States from any country (less the estimated amount necessary for payment of refunds and drawbacks) will be paid over to the treasuries of Puerto Rico and the Virgin Islands. The legislation further provides that the Secretary of the Treasury will prescribe by regulation a formula for the division of these tax collections between Puerto Rico and the Virgin Islands.

It is the Administration's view that the formula to be prescribed should protect the revenues of Puerto Rico and the Virgin Islands without regard to future levels of rum production and should permit both jurisdictions to share in t..e future growth of the U.S. rum market. The formula for division would therefore be based on Puerto Rico's and the Virgin Islands' 1982 share of the U.S. rum market.

The estimated revenue cost of the transfer to Puerto Rico and the Virgin Islands of the tax collections on imported rum is about $10 million in fiscal year 1984.

CONCLUSION

I thank you, Mr. Chairman and Members of the Committee for the opportunity to testify in support of this important legislation.

I would be pleased to entertain any questions you might have at this time.

Mr. GIBBONS [presiding]. Mr. Chapoton, since you were last I will ask you a question first.

That provision that you talk about regarding exchange of information agreements is not in the bill that I introduced. You think we should modify the bill to include it, is that correct?

Mr. CHAPOTON. That is correct, yes, sir.

Mr. GIBBONS. We will go over that with you in great detail when we get to that.

I can generally support a modification if it still serves our tax administration purposes. I see what you are trying to do and I think it is reasonable.

Let me ask you about the convention matter. I assume that when we get to marking this bill up, someone will have an amendment to include cruise ships that originate here in the United States for purposes of the deduction. I know that that is an important matter.

I am well aware of the fact that last year 89,000 people boarded cruise ships in my congressional district. It is amazing what "Love Boat" and romance will do for an industry.

I would hate to pose that kind of amendment. I don't want to be seen as trying to burden this bill down.

Does the administration have a position on the use of cruise ships for legitimate convention purposes?

Mr. CHAPOTON. Yes, Mr. Chairman. We have opposed extending the benefits of convention treatment to cruise ships.

We support the convention treatment in this area because there is quite a different consideration. There is a broad purpose to be served here.

The countries have the severe economic problems that have been discussed by these other two gentlemen. The encouragement of conventions in these countries can in no small measure go to help the economies of those countries, and, just as important, the exchange of information that we are able to receive is such a counterweight to the problems that extending convention treatment gives us that it is a fair exchange strictly from the tax standpoint.

Obviously, that does not exist on the cruise ship matter.

Mr. GIBBONS. So you would oppose the cruise inclusion of conventions on ships?

Mr. CHAPOTON. We would oppose the cruise ship amendment.

Mr. GIBBONS. Mr. Eagleburger, I really like the way you expressed the opportunities that the United States has to gain out of this bill. I thought you stated it as well as anyone I have ever heard and I wonder, since there were so many Members over attending a vote at that time, would you mind going back to that part of your statement and repeating it.

You said to the effect that this is not a zero-sum game. That, I think, has got to be driven in.

Mr. EAGLEBURGER. Let me read it again, Mr. Chairman. There is concern in some quarters about the impact of the initiative on employment in the United States. On this point, the critics make one fundamental assumption about trade and economic relationships with which I strongly disagree. They seem to believe that what the Caribbean Basin gains will be lost by the United States. Trade is not a zero-sum game. All economic history proves it. Economic exchange occurs because both parties have something to gain from the transaction. Consequently, the increase in prosperity which we are aiming to achieve in the Caribbean Basin will not come at the expense of the U.S. economy.

The jobs created in the Caribbean Basin will not mean that an equivalent number of jobs will be lost in the United States. On the contrary, the increased prosperity in Caribbean Basin countries will mean both an increase in jobs for their own people at home, and thus reduced immigration, and an increase in their demand for U.S. exports. The results on both counts should be additional jobs for our unemployed.

Mr. GIBBONS. I agree with you. I think that states it about as well as it can be stated. I am going to go down the list that Mr. Rostenkowski left me and the next name I see is that of Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman, and I want to thank the panel, too. I supported this measure last year when it came to the House even though I had some reservations and supported an amendment primarily beneficial to our own U.S. citizens in the

Virgin Islands and Puerto Rico. I want to address my question to you on the rum issue because that is a very sensitive issue to both Puerto Rico and the Virgin Islands.

First of all, Mr. Ambassador, in your statement a few moments ago, you indicated that indirectly we helped subsidize the promotion of the advertising, or from Puerto Rico and the Virgin Islands.

I would assume that that would be primarily beneficial to bottled rum. You don't advertise the bulk rum, do you?

Mr. SMITH. No, I don't think we do, sir. No.

Mr. JENKINS. Under this proposal, as far as any advertising is concerned, the proposal advanced by the Virgin Islands and Puerto Rico, they would permit bottled rum to come in duty-free, would they not? Is that correct?

Mr. SMITH. Yes, that is correct.

Mr. JENKINS. So I don't see the real advantage there because you don't advertise. In other words, they would have no advantage as far as advertising of bulk rum because you don't advertise it, do you?

Mr. SMITH. No, sir, but I think the point that the Administration is trying to make is that the rum-producing countries of the Caribbean Basin, not including Puerto Rico and the Virgin Islands, because of the cost of bottling operations and things like that, are not major shippers of bottled rum. They are shippers of bulk rum.

Mr. JENKINS. Are they shipping a great deal of bulk rum now?

Mr. GINGRICH. The nations of the Caribbean now account for approximately 4 percent of the rum exported to the United States. Puerto Rico and the Virgin Islands account for 96 percent of the exports to the United States.

Mr. JENKINS. There is a great deal of unused distilling capacity in foreign rum-producing islands now, is there not?

Mr. GINGRICH. Yes, that is right. There is some.

Mr. JENKINS. They would simply utilize the capacity that you talk about on conditions of jobs as far as that is concerned in the rum market, wouldn't they?

Mr. GINGRICH. Yes, that is correct. I think it is important, though, to remember that within the CBI scheme, that Puerto Rico and the Virgin Islands are specifically made eligible for the traditional trade law remedies and if any injury occurs to the rum industry in the Virgin Islands or Puerto Rico, they would certainly be eligible for traditional trade remedies like section 201 import relief.

Mr. JENKINS. I am familiar with those remote possibilities under our law.

Mr. Chapoton, let me ask you this.

Quantities of rum from a CBI beneficiary country which have arrived already in the United States in bond prior to a tariff elimination of this proposal in this bill, but haven't completed the tariff as yet because they are still in the House in this country. Would that rum be subject to a tariff if this bill passes?

Mr. CHAPOTON. You are talking about, in effect, a transitional part of the rum that is already here and later is removed from bonded warehouses, whether the tariff would be eliminated?

Mr. JENKINS. Yes.

Mr. CHAPOTON. Yes, it would be free of tariff.

Mr. JENKINS. Would this be the reason that there apparently is some stockpiling of rum now in anticipation that this tariff would be approved?

Mr. CHAPOTON. I don't know why. You mean stockpiled, not being taken out in anticipation?

Mr. JENKINS. Yes.

Mr. CHAPOTON. Well, Mr. Jenkins, I am not personally familiar with that, but that could well happen, yes.

Mr. JENKINS. In fact, that might be quite a bonanza, couldn't it?

Mr. CHAPOTON. Well, I don't know. I am not familiar with the situation if it is occurring.

Mr. JENKINS. My time is up.

Mr. GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Ambassador Smith, in, I believe it is section 102, under the mandatory criteria, there is a section which requires that the nation must not have expropriated or nationalized U.S. property and so forth. In the Senate, there was an amendment added which included copyrights, trademarks, and patent rights with the support of the administration and I presume that the administration will support that same language being added on this side.

Mr. SMITH. Mr. Congressman, if I may ask my general counsel if he would answer that because we had anticipated your question.

Mr. GINGRICH. Yes, sir, we would support it.

Mr. SCHULZE. Thank you.

Mr. Chapoton, I understand from your answer to the chairman that you are opposed to the so-called cruise ship amendment because it would not help the economy. Did I understand you correctly that the deductability of hotels would be of greater help to the economy?

Mr. CHAPOTON. No. I said the convention treatment to the countries involved, I guess that is one way to put it, would be of greater help to these countries, yes. And also the quid pro quo is, of course, exchange of information for a country that wishes to obtain that benefit.

Mr. SCHULZE. I have to disagree slightly because of the smaller and poorer islands in which infrastructure is a problem. You know, there are no large tourist hotels which are in position to accommodate a convention period. There is just no way and it will take years and millions of dollars to build that type of a facility and it seems to me that these smaller, in fact, the more impoverished islands are the ones that have the greatest need at this time and the best way to give them some kind of a shot in the arm would be to increase cruise ship traffic and one way to do that would be to approve this convention deductability. And I think the cost is relatively small.

So my question is, if the information exchange were included, would that change your view of that type of an amendment? In all candor, I think the answer is legislation and I think it helps the islands and gives them a more rapid infusion of money and a degree of prosperity. And if the amendment were to include the exchange of information, would your opinion of it change?

Mr. CHAPOTON. Mr. Schulze, how would the exchange of information work with respect to the cruise ship? I have not heard that suggested.

Mr. SCHULZE. Well, I guess first of all if the exchange of information is not agreed to, the country can be excluded, is that correct?

Mr. CHAPOTON. The country is excluded unless it does agree to an exchange of information, yes sir.

Mr. SCHULZE. In the cruise ship amendment, 75 percent of the nations have to be included so that if they are not, they would count against that 75 percent and therefore their position of being included on the cruise ship itinerary would be in jeopardy.

Mr. CHAPOTON. Well, I am not familiar with an amendment related to cruise ships operating just in the Caribbean countries. Is that what you are discussing?

Mr. SCHULZE. Yes. I am sorry. I thought you might have remembered it from the last time. The amendment which I probably will offer says that the cruise has to either originate or conclude in an American port and/or Mexico or Canada, North American. And 75 percent of the stops must be in the approved CBI nations.

I am convinced it will give a genuine shot in the arm. The cost is less than $5 million and I think it will be of great benefit to the smaller, less developed islands.

Mr. CHAPOTON. The cost in terms of tax revenues is certainly not high. We assume that the conventions are moved from some other place and the costs would exist in any event. I do think, though, that the purpose of the present draft of the bill is to target the convention benefit to the nations or countries involved and if you extend that to cruise ships, obviously some of the benefit, as you are suggesting, might flow to particular countries.

A lot of the benefit would not. A lot of the benefit would flow directly to the cruise ship owners and I am not convinced that the exchange of information would be as tight as we would like it to be. We would like it to relate to particular countries if that country has a benefit.

If you put it on an area-wide basis, I think it may not be satisfactory. If you put it in a number of countries, for example, then you would have the benefits going where maybe a large part of the cruise ships don't visit those countries.

Mr. SCHULZE. Quite frankly, we could draft it so that if any country is included which has not agreed to an exchange of information, there is no deductability.

Mr. CHAPOTON. Any move along that line would obviously help, but I want to point out that our problem with this, year in and year out, and this committee has dealt with this problem since 1976, is the perception of the tax deduction for a cruise ship convention is, we think, very bad for the taxes.

Chairman ROSTENKOWSKI. The gentleman's time has expired.

Mr. Matsui will inquire.

Mr. MATSUI. Thank you, Mr. Chairman.

I would like to ask Ambassador Smith a few questions. This administration, similar to past administrations, has vigorously pressed forward on the citrus 301 complaint. If the passage of a 301 initiative goes through, will you continue this rigorous pursuit of the 301 complaint for citrus?

Mr. SMITH. That is correct, sir.

Mr. MATSUI. The second question pertains to the proposed legislation and its impact on perishable commodities. You have a safeguard mechanism by which a complaint may be filed by a grower and then the Secretary will have 14 days, to evaluate the complaint. The President will then have 7 days to determine whether to reject or approve the Secretary's action. That is 21 days in total. Some growers of perishable commodities in California are very concerned about that proposal because they feel that a 21-day schedule does not provide a timely remedy because of the perishable nature of their commodities.

I have two questions with respect to this proposed process. One, is it possible to shift the burden of proof and would you have any problems if we shifted the burden of proof once a complaint is filed? Does it add some prima facie case of legitimacy to put the burden of proof upon the Caribbean Basin nations? Second, should we expand definition of a perishable commodity from chilled vegetables, fresh mushrooms, fresh fruits, and fresh cut flowers?

Would you have problems with those two items that I mentioned?

Mr. SMITH. I think I would have a problem, sir, on the shifting of the burden on the definition. I would ask my general counsel to give you a response to that.

Mr. GINGRICH. Obviously we would want to know to what extent that you wanted it expanded. We wouldn't want covered within the definition of perishable products every conceivable product coming from the Caribbean. This is intended to be obviously a very extraordinary remedy limited to critical commodities.

Mr. MATSUI. I hope you will have an open mind on this matter. If I provide you with a list, can we discuss it further?

Mr. GINGRICH. Absolutely an open mind.

Mr. MATSUI. With respect to the burden of proof issue, if we propose an amendment that would give the Secretary the authority to shift the burden of proof if he finds that a case has been made by a grower. I can understand your concern where a grower files complaints randomly and you wouldn't want to shift the burden of proof in that case. However, if the Secretary had the authority for a 2-day or 48-hour period, he could look at the matter and then say that there is a potential case, then shift the burden of proof. This would allow us to stop the foreign shipment and allow the American product to go to market.

Would you consider something like that, since many growers find 21 days too long a period to have to wait for a determination?

Mr. GINGRICH. Congressman, if your objection is to speeding up the process, I am not sure that would speed up the process, the simple matter of contacting the foreign government involved and getting the information on which we could make a decision requires a certain minimum amount of time.

Mr. MATSUI. It may not speed up the process, but it would protect the American grower if the burden shifts. The product from the Caribbean nation would be stopped, unlike your proposal.

Mr. GINGRICH. I don't think we could agree to a process that would stop the importation of a product simply upon the filing of a petition.

Mr. MATSUI. And I am not suggesting that. I am backing down from that position, but perhaps if the Secretary had a review period of 48 hours or 72 hours and if he finds that there is a case, then the burden would shift.

Mr. GINGRICH. Again, I think that the extraordinary remedy has been crafted to take care of sensitive products. It is an abberation from otherwise applicable GATT obligations. Our international agreements don't contemplate making someone disprove the allegations before they can enter a market. I think we would have to have a lot of difficulty but we would certainly be willing to talk with you and work with you on it.

Mr. MATSUI. Thank you.

If I may, Mr. Chairman, I have one more question. I know my time has run out.

Chairman ROSTENKOWSKI. Go ahead.

Mr. MATSUI. This is with respect to an international issue. It is my understanding over the past 20 years that the Philippines have exported to the United States about 33 percent of the imported sugar. In the last 7 years, the amount has been about 13.5 percent of the sugar. Why are you not using a 20-year figure? It seems to me that we have an ally that just entered into an agreement in terms of basing military bases in the Philippines.

We are now causing perhaps some damage to them potentially in the future.

Mr. GINGRICH. Congressman, we took the period since 1974 because until 1974, sugar quotas were allocated congressionally. We thought it was the only free market period we had to actually judge the representative historic supply of sugar to the U.S. market. I would note that the Philippine share of the market quota fell because the Philippines switched from supplying the United States to supplying Japan, Russia, and some Far Eastern countries. They voluntarily did not sell in this market. As a result, from 1974 to 1981 or 1982, their share of import penetration in this market dropped. By using that period, we came up with the applicable straight mathematical percentage. That did result in a dimunition of their share when judged against a 30-year period, but, as I said, it was a result of voluntary Philippine actions.

Chairman ROSTENKOWSKI. The Chair yields himself 1 minute and yields to the gentleman from Georgia, Mr. Fowler.

Mr. FOWLER. Mr. Chairman, I have been asked to clear up a question asked of counsel by Mr. Schulze a moment ago concerning copyright issues.

In section 102(b)(5), I think, is that what he asked you about that has been addressed by the Committee on Senate Finance and the Foreign Relations Committee which insisted upon the inclusion of a Presidential waiver and if that was not Mr. Schulze's question, let me ask you what is the State Department's position on the provision of the Presidential waiver?

Mr. GINGRICH. It was my understanding that Congressman Schulze's question was with respect to the action of the Finance Committee to include within the language on expropriation, the designation criteria language, the proposal that if a country has taken steps to repudiate or nullify any patent trademark or intellectual property of a citizen of the United States, it would be ineli-

gible, and my response was that the administration did support the inclusion of language in the Senate and would so support it here.

Mr. FOWLER. That is not the waiver. What is the State Department's position on the Presidential waiver?

Mr. EAGLEBURGER. Mr. Fowler, the State Department's position on that is that we would very much like to have it in the bill.

Mr. FOWLER. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Anthony will inquire.

Mr. ANTHONY. Thank you, Mr. Chairman.

We would like to propound a question to the Trade Representative in the Department of State.

H.R. 3108 has been introduced potentially to be offered as an amendment on the rum section to the Caribbean Basin Initiative. Was this proposal presented to you and have you had a chance to look at it and do you support it or reject it?

Mr. GINGRICH. That is the so-called de Lugo amendment?

Mr. ANTHONY. Yes. It is in the form of H.R. 3108.

Mr. EAGLEBURGER. I can tell you that the State Department is opposed to it.

Mr. SMITH. And the Trade Representative is opposed to it.

Mr. ANTHONY. Are you aware of whether or not that proposal was submitted for the Caricom to the Organization of Eastern Caribbean States and if they have taken an official position on it?

Mr. SMITH. Yes, sir. They are aware of that and they have taken a position and they are opposed.

Mr. ANTHONY. They are opposed to it also?

Mr. SMITH. Yes, sir.

Mr. ANTHONY. So the Caricom as well as the Organization of Eastern States is opposed to it. Is the White House against it?

Mr. GINGRICH. Yes, sir.

Mr. ANTHONY. You-all wouldn't be here testifying against it if it wasn't.

And obviously you have the West Indies Rum and Spirit Producers Association on record in opposition to it.

Last year, Ambassador Brock testified that if the bill was passed as introduced and was amended without the rum section in it, that he saw no harm coming to either the Virgin Islands or Puerto Rico. Is that your official position today?

Mr. SMITH. Yes, sir.

Mr. ANTHONY. And, in fact, there are sections in the bill that would be beneficial to Puerto Rico and to the Virgin Islands if it passed.

Mr. SMITH. That is correct, sir.

Mr. ANTHONY. You would not support the inclusion of 3108 in the Caribbean Basin?

Mr. SMITH. That is correct.

Mr. ANTHONY. I yield back the balance of my time to my friend from Georgia, Mr. Fowler.

Mr. FOWLER. On that issue, Mr. Ambassador, I know you are aware of the fact that most Virgin Islands rum is sold in bulk under private labels and there is an extremely price-sensitive bottom-of-the-line market.

What in the bill would prevent foreign rum producers from entering this end of the market?

I asked what in the bill would prevent the foreign rum producers from entering the part of the markets where they sell unaged and bulk sale under the private label?

Mr. GIBBONS. If the gentleman would yield. Are you talking about rum not produced in the Caribbean?

Mr. FOWLER. Yes.

Mr. GIBBONS. Well, there is a very substantial provision in there. I am not a witness, but there is a very substantial provision there about substantial transformation and Caribbean context. It has got to be comprised of at least 35 percent Caribbean context, and moreover, it has to be substantially transformed in the Caribbean. You can't have simple passthroughs in any way. Rum is essentially alcohol with flavor.

Mr. FOWLER. A little sugar cane.

Mr. GIBBONS. Well, it is mostly alcohol and flavor. You make the alcohol and you make it out of anything and then you add a little flavor to it. That is all any alcoholic beverage is. You can't simply add water. We have a specific provision against water being added no matter where it comes from.

Mr. FOWLER. I am using the time of the gentleman from Arksansas.

Mr. GIBBONS. I am sorry.

Mr. ANTHONY. I yield the balance of my time.

Mr. FOWLER. Didn't you just ask me to yield back your time?

Chairman ROSTENKOWSKI. The time of the gentleman has expired.

Mr. Vander Jagt will inquire.

Mr. GIBBONS. I apologize Beryl. I didn't realize I was using up your time.

Mr. VANDER JAGT. Thank you, Mr. Chairman.

Mr. Chapoton, in your testimony, I understood you to say that the Treasury sort of had to swallow hard to support the provision in the bill that calls for relaxing the deductibility of expenses of attending foreign conventions but you were able to do so for two reasons. One, because of the economic crisis in the Caribbean nations and increased tourism would be a tremendous boon to them and, two, under the provisions of the bill, it is an incentive to countries to sign up for an exchange of tax information.

Mr. CHAPOTON. That is correct. Yes, sir.

Mr. VANDER JAGT. And then Mr. Schulze asked you about cruise ships and if an amendment provided that the cruise ships must either leave or terminate at a U.S. port and that all other ports of call had to be a Caribbean nation. I don't see why the two reasons that prompt you to support the bill as it stands would not also lead you to support that kind of amendment.

As far as the infusion into the economy of tourism as Mr. Schulze pointed out, some of these countries don't have the hotels that can take a convention, but a convention onboard a ship that would make that a port of call. You have got 1,000 passengers going on to that land for a day, spending an average of $75 apiece. It is a much more rifle shot of an infusion into that economy than just the broad provision as it stands.

And second, in terms of an incentive for exchange of tax information, if a country were going to be off the port of call of a ship, if they did not sign up, that is a much more powerful incentive. So I don't see why under the two reasons that you gave, that those two reasons would not lead you to support with enthusiasm extending this to cruise ships that either originate or terminate at a U.S. port of call and all of their stops are in the Caribbean nations.

Mr. CHAPOTON. I think the exchange of information target—you are correct if you would tie that to the deduction as an incentive—again, I guess you would say the vessel could not stop in a port where the country had not signed an exchange of information agreement. That would provide an incentive to exchange information. I think, though, one would have to be shown that a significant benefit would pass to the country in which the cruise ship was making a stop. And we have to recognize that it would dissipate to some extent the benefit to the countries that do have facilities that will be encouraging conventions to come to those facilities. They will then have to compete with cruise ships.

So I think we have that problem.

Mr. VANDER JAGT. I am not sure it would be a problem of either or, but both, and even the countries with conventional facilities would benefit by the cruise ships stopping there and the passengers coming purchasing the goods that were manufactured in that country and for sale.

You said earlier that the real reason that Treasury continues to oppose is not revenue but perception and I certainly agree with you that there is a perception problem and the perception is that the average passenger on a cruise ship is sort of a suave, sophisticated Cary Grant. We know that isn't true. The average income is in the low $20,000.

The average person has saved several years to make this sort of trip of a lifetime. The average conventioners on the cruise ship are the hardware merchants or the realtors or the homebuilders, sort of middle America USA. If, in fact, my assumption is correct that this is a rifle shot way to infuse the health into these desperate economies that would otherwise not benefit from it because they don't have the facilities and if, in fact, as you testified, it is an added incentive for exchange of information should we just let an erroneous perception prevent us from doing something that is of so much economic benefit to the countries we are trying to help and to our own efforts to get greater compliance with our Tax Code?

Mr. CHAPOTON. The perception is not necessarily that every one on a cruise ship is a Cary Grant, but that a person attending a convention on a cruise ship is not really in a business matter and if the expenses are deductible, it is a tax-deductible vacation. That is the concern we have to deal with. It is a concern anytime we have a convention anywhere. I see that immediately. I think it is more of a concern in the case of a cruise ship.

I think your point does address the exchange of information. I think we would have to be shown that the benefit to the region was as great, dollar for dollar, or as a result of this provision as the benefit to the region limiting it to the facilities in the countries themselves.

Mr. VANDER JAGT. One final question to show the benefit to the country. Eighty percent of all the money that comes into a cruise ship that originates or terminates in a U.S. port is spent in the United States creating jobs here. The bulk of the remaining 20 precent is paid in salaries to residents of the Caribbean countries that we are trying to help. Wouldn't that be a way to boost their economy and get them some purchasing power?

Mr. CHAPOTON. Everything would help. The question is which would help more and would we dissipate the benefit that we are trying to give through the countries that do have facilities, admitting that some do not.

Mr. VANDER JAGT. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. Concerning the Virgin Islands rum problem that we had been discussing earlier, it would seem to me that any successful initiative we have in this area should have Puerto Rico and the Virgin Islands as the linchpins to illustrate the free enterprise system. I did not hear any of the proponents of the bill from these countries talk about exporting bulk rum. As a matter of fact, they indicated that they were really not looking to compete with Puerto Rico or the Virgin Islands, but were concerned with making a quality, top shelf product. So, what we hear on our side is that there is no threat to the Virgin Islands export of bulk rum.

If that is the case, why can we not find some way to assure our people in the Virgin Islands that this bill would not adversely affect them.

Mr. GINGRICH. Congressman, I go back to what I said previously. First of all, the Virgin Islands and Puerto Rico control 96 percent of the rum exports to this country.

Mr. RANGEL. I don't have any problem with that, but the people in these islands never said they wanted to compete with the bulk rum. Do you believe that some of these countries will compete with the Virgin Islands bulk rum market? I never heard anyone advocate that they wanted to deal in bulk rum except those in the Virgin Islands.

Mr. GINGRICH. We believe that the Caribbean countries will send primarily bulk rum to the United States to be bottled here. They will not be producing rum and bottling it in these small countries. They simply don't have the facilities. The real potential for them if there is any in this market is to send rum in bulk to be further processed or bottled in the United States.

Mr. RANGEL. Who testified that the Virgin Islands have nothing to worry about under the rum provision? Didn't someone just testify that it is not going to hurt them and, that there is sufficient protection in the law?

Mr. GINGRICH. I testified that there was sufficient protection under the different trade laws such as 201.

Mr. RANGEL. Well, those of us supporting CBI certainly didn't think we were supporting it at the expense of the only source of revenues that our citizens in this area would have. We selected this route for them to help finance their projects. At minimum, we expect that they not be harmed as we broaden the opportunity to export to the United States to other people who are noncitizens.

Mr. GINGRICH. They are not going to lose revenue in the sense that the rum excise taxes would continue to be covered over, as they have in the past, back to the Virgin Islands.

Mr. RANGEL. Having seen the differences in the cost of labor in these other countries as opposed to the high cost of labor in the Virgin Islands, I don't see how they could effectively compete.

In any event, let me welcome Ambassador Eagleburger and thank him for the cooperation the State Department has given through Mr. Hormel, when we were trying to create some trading groups of people with developing nations which could effectively deal with the World Trade Center. As a result of the CBI, we have been able to put together a group of people in the New York City area that have ties in the Caribbean Basin and want to assist these people in identifying American markets.

We have a provision in our bill which asks the State Department to see if it is feasible. I hope I can enjoy the same support we have had with the State Department. Secretary Powell was with us on a trip in which we talked with many of the small people in these countries that have no idea of the vast international complexities of trade agreements. They would just like to have a helping hand. I hope we can get your support in developing that concept further.

Mr. EAGLEBURGER. Mr. Rangel, absolutely. We would be glad to do everything we can to help with that.

Mr. RANGEL. I yield back the balance of my time.

Chairman ROSTENKOWSKI. Mr. Pickle will inquire.

Mr. PICKLE. Thank you, Mr. Chairman.

I want to expand further on the line of questioning of Mr. Rangel and Mr. Fowler. First, I support this CBI legislation. I think it is important to our country and to the Caribbean region. I am specifically concerned about the sugar quota issue. Several people have expressed to me a concern that if we pass CBI, the sugar quota for the Philippines, for example, would be reduced. They are concerned that through an automatic reduction, passage of CBI would result in the loss of their present market share. Is there substance to this argument?

Mr. GINGRICH. No.

Mr. PICKLE. So, as far as you know, there is no intention to reduce the Philippine quota?

Mr. GINGRICH. No, sir.

Mr. PICKLE. That is good.

Now, Secretary Eagleburger, if we were to pass CBI and if we could help spur production and the development of new industries we would hope then that would increase employment in the Caribbean region.

Is there any way then that we can state affirmatively that through enactment of this bill, that there would be a reduction of immigration into this country? That is, that there would not be as many leaving the region and coming into the United States. There is a large number coming in now.

Now, if we could build up industry, we would think that we might reduce that number somewhat because of the improved conditions.

Mr. EAGLEBURGER. Mr. Pickle, I obviously can't give a flat guarantee. But the whole history, it seems to me, of immigration into

the United States—as long as you are not talking now about something of a Vietnam variety, but rather economically motivated immigration into the United States—is that it is, in fact, because the conditions in the country are so much poorer than they are in the United States, we act as a magnet.

It would seem to me, therefore, very clear that to the degree we can improve the economic situation in these Caribbean countries we will, ipso facto, reduce the incentive to emigrate to the United States.

I think that is, to me, very, very clear.

Mr. PICKLE. Well, I would think we might go beyond the ipso facto intent and pronounce the improvement of conditions through job creation as a key to the economic revitalization of the region.

We do want to help their industries, and we want to help build up their economies. It should follow that the people of the region would want to participate in these efforts.

A reduction in the outmigration of people should be our intent, along with the economic revitalization of the region. This I think, would be in the best interest of us all.

I hope we can work toward this as a principle.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Moore will inquire.

Mr. MOORE. No questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Fowler will inquire.

Mr. FOWLER. I pass.

Chairman ROSTENKOWSKI. Would you like to use your own time now, Mr. Fowler?

Mr. FOWLER. I pass. I negotiated with the others.

Chairman ROSTENKOWSKI. Mr. Pease will inquire.

Mr. PEASE. Thank you very much, Mr. Chairman.

I am delighted to have such a distinguished panel before us.

Ambassador Eagleburger, you made a great point, and you are invited to repeat your point about trade not being a zero sum game.

I presume you would admit that while trade expands opportunities for everybody in general, that it can cause some specific industry dislocation. Would you stipulate that?

Mr. EAGLEBURGER. I certainly would. In my opening statement, I said there are admittedly some transitions and adjustments that must be addressed.

Again, I said I thought this legislation did that.

Mr. PEASE. What items do you have in mind for addressing that problem, say in manufactured goods?

Mr. EAGLEBURGER. Well, let me try to respond to that. Perhaps there are others who would like to add to it.

There are the safeguard provisions which allow reimposition of the duty in cases where U.S. industries and workers are threatened with serious injury. There are rules-of-origin requirements, and then obviously, this legislation excludes a number of politically sensitive products.

So what I am saying is that I think, by and large, the questions of adjustment are addressed in the legislation as it now stands.

Mr. PEASE. Would your concern about workers getting injured in response to this duty-free treatment lead you to support continu-

ation, reauthorization of the trade adjustment assistance law which is due to expire at the end of this fiscal year?

Mr. EAGLEBURGER. I am getting no help here, Mr. Chairman. I can't answer the question.

Mr. PEASE. I am sure Ambassador Smith is more familiar with this.

Would you identify yourself?

Mr. GINGRICH. I am Claud Gingrich, general counsel.

The trade assistance program was not extended primarily on the belief that the training aspects of the program did not work as were originally intended. Instead, last year the administration supported the Job Training Partnership Act.

Mr. PEASE. So workers would be entitled to training in the JTPA so long as the States in which they resided were willing to come up with 50 percent of the money; is that the idea?

Mr. GINGRICH. I am not an expert in this area, but it is my understanding that that is correct.

Mr. PEASE. What about the injured workers in the States where the States did not come up with the 50-percent local matching money?

Mr. GINGRICH. Obviously that would be a problem.

Mr. PEASE. All right.

I would like to talk to Mr. Chapoton about conventions. I think I understood him to say that he has not changed his basic position. He is still opposed to granting tax treatment for conventions held on cruise ships; is that right?

Mr. CHAPOTON. That is correct.

Mr. PEASE. Good. I hope you stand by that despite the logical arguments of my friend from Michigar

I guess I would have to say that anyone who voted for the 1981 Tax Act would be sort of immune from concern about the perception of the citizens regarding the fairness of the Tax Code, so that is perhaps one reason for the difference in attitude between my friend from Michigan and myself on this point.

But I think you are right on target. What we are talking about for conventions on cruise ships is the concern that Americans will perceive that those are paid vacations and it will lessen their concern about meeting their own tax obligations.

You apparently don't think that that is the case for the extension of this treatment for conventions held on land in the Caribbean countries.

Mr. CHAPOTON. No, I think it is a concern in general, Mr. Pease.

There is simply an overriding concern here of the crisis in the region and the exchange of information that we think will net a plus for the system. The exchange of information is exceedingly important.

Mr. PEASE. How do you view the waiver provision exerted by the Senate? Do you think that is a serious erosion of this quid pro quo?

Mr. CHAPOTON. No, I do not, because it is limited both by the national security finding of the President and then further by the fact that the Secretary of the Treasury must find that the modified exchange of information is beneficial to the system.

The waiver would permit only bearer share and bank secrecy provisions to be waived, but we would still have full criminal information and full civil. It is still a good exchange.

Mr. PEASE. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Russo will inquire.

Mr. RUSSO. Thank you very much, Mr. Chairman. I have a comment for the gentleman from USTR.

Last year I introduced an amendment to the Caribbean Basin Initiative that dealt with broadcast policies, specifically by the Jamaican Government. I am very concerned about the waiver provision that appears to have been accepted by the Senate Finance Committee.

My question is, why is the waiver so necessary in this particular instance, to waive the right or give the President the right to allow violations of copyright holders' rights in this country? What purpose are you trying to accomplish by this particular action?

Mr. SMITH. Mr. Russo, both Secretary Eagleburger and Mr. Gingrich have asked to respond to that.

Mr. EAGLEBURGER. Mr. Russo, the State Department is strongly in favor of a waiver.

Mr. RUSSO. I just want to let you know I am strongly opposed to this.

Mr. EAGLEBURGER. Yes, sir, I gathered that.

I want to talk about the Jamaican case specifically, if I can, as a preface to this. I myself have talked to the Prime Minister of Jamaica on the subject. Our Ambassador has been in contact with him. I have talked with Mr. Valente a number of times on the subject.

It is an issue which we now are negotiating with the Jamaicans, and I think we will resolve it, so I don't think that this issue will be a problem.

That having been said, it seems to us that there is, first of all, the point of providing the President with some flexibility.

There is a second point, which is how we deal with countries of this size. When we are 220 million people, we feel there should be some indication that we can have some flexibility in trying to deal with them on the whole range of our bilateral problems.

But I do not believe that in the case of Jamaica we will have to use it.

Mr. RUSSO. Mr. Ambassador, my only comment to that is that there is no other country in the world that is looking for something like this. It violates the copyright holders' rights.

Everyone sits down and negotiates and works out whatever deal they can, and we understand that the Jamaican Government and the Jamaican country are less developed than other countries we deal with. Obviously, when they negotiate, that is taken into consideration.

The big stumbling block here is that the Jamaican Government is essentially saying "we are going to do this whether you like it or not." To me that is something that we, as representatives of Americans who have certain property rights that must be protected, ought to be concerned about.

I certainly hope that your negotiations with the Jamaican Government will settle this issue so we don't have to deal with it in the committee.

Mr. EAGLEBURGER. I would not want to leave any impression that we are not equally concerned about the property rights of Americans. I would say, in fact, our involvement in this case would demonstrate to the contrary.

Mr. RUSSO. I hope things work out because if they don't, I would like to know how you would even put the waiver into effect.

If I can return to the question that the gentleman from Texas asked, the question about sugar quotas, if we pass the Caribbean Basin Initiative, we are not going to change the sugar quotas at all; I understand that. But in the event that there is a move to remove the quotas, would not the Dominican Republic then enjoy a considerable advantage over sugar produced in the Philippines because of the tariff changes that we are making under the CBI?

Mr. GINGRICH. Yes.

Mr. RUSSO. And then it would have a tremendous effect on the share of the market that the Philippines have, but that would take time?

Mr. GINGRICH. They can export to this market duty free a limited amount—I believe it is 780,000 tons—and up to that amount, they would have an advantage.

There is no question but that is obviously specifically what the CBI was designed to do, was give them an advantage in certain product areas.

Mr. RUSSO. Do you know if there is any move contemplated now or in the near future to remove those quotas and bring the price of sugar down?

Mr. GINGRICH. I'm sorry, I don't know.

Mr. RUSSO. That would create a tremendous problem if we were to remove quotas after the passage of the CBI.

Mr. EAGLEBURGER. Certainly I know of no intention.

Mr. RUSSO. At the present time or in the foreseeable future, there is no move to remove those quotas?

Mr. GINGRICH. Not that I am aware of, Congressman.

Mr. RUSSO. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Campbell will inquire.

Mr. CAMPBELL. No questions.

Chairman ROSTENKOWSKI. Mr. Shannon will inquire.

Mr. SHANNON. Thank you, Mr. Chairman.

First of all, let me thank all of you for your testimony. It has been very enlightening.

I have a question for Ambassador Smith. I have some of the same concerns that Mr. Jenkins, Mr. Rangel, and Mr. Fowler have voiced about the Virgin Islands rum problem.

We have heard testimony this morning to the effect that there were adequate safeguards for the Virgin Islands rum industry in section 103(e) of the bill. Under this section the President may suspend duty-free treatment of an article if the injury caused by imports is sufficient to trigger section 203 of the Trade Act of 1974.

My question is, would, in fact, the Virgin Islands rum industry be protected under the Trade Act of 1974 and section 103(e) even

though they only produce about 10 percent of the share of the American market?

How could they possibly trigger the Trade Act of 1974, producing such a small share of the American market?

Mr. GINGRICH. Congressman, in making them eligible for section 210, they would be examined along with all the other relevant aspects of the industry.

Mr. SHANNON. There is a distinction between their situation and the rest of the industry. The Virgin Islands are in a difficult situation because of the unique nature of their rum industry: they produce almost all of the bulk rum, the lower end of the market, rather than the bottled rum which is much less price sensitive, and less vulnerable to competition under the CBI.

Could they, on their own, producing only 10 percent of the American market, trigger that provision of the Trade Act of 1974 that you said offers them protection?

Mr. GINGRICH. I would say they might be able to.

Mr. SHANNON. Are you aware of situations where a petition for relief under section 203 of the Trade Act of 1974 has been filed when only 10 percent of the market has been affected and where that petition has ever been granted?

Mr. GINGRICH. Well, obviously, if you take the shoe industry limitations, there were obvious differences among the major and minor shoe suppliers in the United States.

Mr. SHANNON. Those shoe actions were initiated by the industry in coalition. They were not done by specific producers who had one small segment of the market.

Mr. GINGRICH. But there would be no reason why a single producer could not. Section 201 requires that it be a representative of the industry. It does not require the whole industry to get together and agree to a petition.

Mr. SHANNON. I understand that. But we are talking about 10 percent of the market here and we are talking about the Virgin Islands having a situation where their bulk rum industry involves just 10 percent of the total rum market.

What is the likelihood of this safeguard being triggered by that small a percentage of the market?

Mr. GINGRICH. I must agree with you that the likelihood is not as great as if this were Puerto Rico with a much larger portion of the market.

Mr. SHANNON. That is right. Unless they get the Puerto Rican bottled rum producers to go along, then they are basically likely to be out of business under this language.

Mr. GINGRICH. Well, likely to be out of business is not a phrase that I think we could agree with.

As I said, they control 96 percent of the market in the U.S. import market. Puerto Rico and the Virgin Islands, we would assume if the Virgin Islands are suffering so is Puerto Rico.

Mr. SHANNON. I think you are trying to lump Puerto Rico and the Virgin Islands together here, and I understand that. But you have to acknowledge the situation in the Virgin Islands is quite different than it is in Puerto Rico in that their rum industries are quite different; the products they produce are quite different. The Virgin Islands produces bulk rum—a highly price-sensitive com-

modity, while Puerto Rico produces the higher quality, less price-sensitive bottled rum. But for the purposes of triggering the Trade Act of 1974, there are both simple rum.

Mr. SMITH. Mr. Shannon, I would say that though the CBI rum is expensive rum—and even without the duty it is roughly selling at $3 a proof gallon. Virgin Islands rum sells at roughly $1.50 a proof gallon.

If I gather the thrust of your question as to whether the CBI rum is just going to swallow up——

Mr. SHANNON. Given that, Ambassador Smith, do you have any objections to putting additional language in this bill that would give specific relief to the Virgin Islands rum industry going beyond the Trade Act of 1974?

The way I read it, section 203 of the Trade Act of 1974, which is your big fallback to protect the Virgin Islands, if their market is impacted, would never in fact be triggered by the Virgin Islands rum producers, because they are not a big enough share of the market.

What about more specific language that would protect the Virgin Islands in the legislation?

Mr. SMITH. Well, obviously, as Mr. Gingrich said, the Virgin Islands producers would have the right of petition just like any other industry representative would have.

The point that we are trying to make, sir, is that even with the elimination of the duty in terms of the CBI rum, its price is so much higher. Is it realistic to expect that the Virgin Islands producer, for example, will be overrun, if you will, by CBI? And, therefore, why is such legislation necessary?

Mr. SHANNON. My time has expired, Mr. Smith. But if, in fact, what you are saying is true, then you should have no objection to stronger language in the event that there is an unfavorable impact on the Virgin Islands market.

What I would like to ask you is whether you would consider working with Mr. Rangel, Mr. Jenkins, Mr. Fowler and me to try to strengthen this language in the legislation or whether you want to hold fast to the position you take?

Mr. SMITH. We prefer to hold fast to the position that we take.

Mr. JENKINS. Would the gentleman yield?

Mr. SHANNON. I would be happy to yield.

Mr. JENKINS. Mr. Ambassador, you say that the Virgin Islands, rum is $1.50 rum whereas the other rum is more expensive.

Mr. SMITH. Yes.

Mr. JENKINS. What in this legislation will prevent these other countries from getting the $1.50 rum business?

Mr. SMITH. I believe, sir, that it is a question of efficiencies of scale in this.

As Mr. Gingrich pointed out, the amount of rum that is exported to the United States from CBI countries represents roughly 4 percent of the total imports of rum.

Mr. JENKINS. Isn't the only thing that has prevented them from being in the cheap rum business right now is the tariff?

Mr. SMITH. No, sir. The Virgin Islands, for example, gets a subsidy on its molasses input into the rum. CBI countries do not, sir.

So there is a substantial price difference and there is likely to remain so.

Mr. JENKINS. Is it your contention that there would be no harm done to the Virgin Islands bulk rum industry, simply because they will be competing on different types of rum? Is that right?

Mr. SMITH. That is correct, sir.

Mr. JENKINS. Thank you.

Mr. GINGRICH. There are two other provisions specifically designed to help the rum industry.

One is the waiver of the requirements in the bill and the second is to let an additional liter of rum to be imported from possessions duty free into the United States.

So we certainly have tried to work with them.

Mr. JENKINS. Of course, it would be duty free. These are U.S. citizens.

Mr. GINGRICH. An additional amount coming in if it is bought in the Virgin Islands. There is an additional liter permitted.

Mr. JENKINS. The environmental benefits are different than any Caribbean countries. Will that give them any advantage over the other Caribbean countries?

Mr. GINGRICH. Certainly it would not give them an advantage over the British possessions, but we clearly tried to work with the rum industry in the islands and accommodate as many of their legitimate concerns as we could.

Chairman ROSTENKOWSKI. If there are no further questions, gentlemen, we want to thank you for joining us this morning. You have been most helpful. I am sure you will be available if we need any more information.

Thank you.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. EAGLEBURGER. Thank you, Mr. Chairman.

[The following was submitted for the record:]

QUESTION SUBMITTED TO DEPARTMENT OF STATE BY CONGRESSMAN KENT HANCE

Question. Section 102 (of H.R. 2769) deals with situations in which a potential beneficiary country expropriates property or takes an action, "the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property", owned by a United States citizen or company.

Let's assume the following hypothetical situation: A potential beneficiary country cancels a contract with a U.S. business and seizes control of the firm's property. No settlement is ever made.

Under the language of Section 102, is a State Department declaration that an expropriation has occurred a necessary pre-condition to withholding aid? Or does this language cover a firm's pending, yet-unresolved claim of expropriation, meaning that aid would be withheld until the claim, which had not yet been declared to be an expropriation, was settled?

Is there a difference between an "expropriation" and an act that "has the effect of" expropriation?

Answer. Under Section 102(b)(2), a decision to withhold benefits would depend upon a variety of factors, including as a threshhold matter, a determination by the President that an expropriation, or a measure or series of measures tantamount to expropriation, as contemplated by the Section, in fact had occurred. Section 102(b)(2) does not appear to require a withholding of benefits prior to such a determination; however, the possibility of a withholding of benefits would be expected to serve as an inducement to the host government to resolve a claim.

Section 102(b)(2) does not distinguish in its application between a formal "expropriation" and an act that "has the effect of" expropriation. The intention is to reach

all acts expropriatory in nature, whether direct or indirect, and however denominated.

Even if it is determined that an expropriation has occurred, the President is not precluded from designating the expropriating country as a beneficiary country under Section 102 if he determines that the government meets one of the three criteria listed in Section 101(b)(2)(C)(i-iii), i.e., prompt, adequate and effective compensation has been or is being paid; good faith negotiations to provide prompt, adequate, and effective compensation are underway, or the country is otherwise discharging its obligations under international law; or a dispute over compensation has been submitted to arbitration.

Chairman ROSTENKOWSKI. The Chair calls Congressman Hopkins. Thank you, Larry, for joining us. You have been most patient. We appreciate the fact that you want to give us the benefit of your views on this legislation. If you are ready to proceed, the committee is ready to receive your testimony.

STATEMENT OF HON. LARRY J. HOPKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. HOPKINS. Thank you very much, Mr. Chairman. I appreciate the opportunity to present my views in this statement before the Ways and Means Committee for consideration during deliberations on H.R. 2769, the Caribbean Basin Economic Recovery Act.

Let me take this opportunity to say that I am not opposed to the Caribbean Basin Initiative concept. As a matter of fact, I applaud the President's efforts to economically assist the Caribbean countries. I was recently in El Salvador and saw, firsthand, the need for development in the region.

However, this assistance should not be to the detriment of American citizens. As ranking minority member of the Subcommittee on Tobacco and Peanuts, of the House Committee on Agriculture, and the representative from the largest burley tobacco-producing congressional district in the country, I am particularly alarmed by the potential for economic harm to America's tobacco producers.

As you remember, last year the Congress passed the No Net Cost Tobacco Program Act. The tobacco program now operates at no net cost to the American taxpayers, except for administrative expenses. Any losses on price support loans will be paid by the tobacco farmer from a fund made up of farmer contributions.

Tobacco producers cannot efficiently operate their price support program at no cost with potential interference from duty-free tobacco.

Imports of tobacco have been increasing steadily in recent years. In 1972, total imports of unmanufactured tobacco for which duties were paid were 229 million pounds. In 1982, that figure had increased to 376.5 million pounds. In other words, in 10 years, Mr. Chairman, a 65-percent increase.

With the duty-free treatment of tobacco from Caribbean countries as provided for in H.R. 2769, the possibility exists for further increases in imports.

I am distressed by this possibility. If larger quantities of cheaper, imported tobacco begin to enter this country, there is no doubt in my mind that this tobacco will be bought instead of our American-grown tobacco.

Let me set up a possible scenario. The marketing quota for any particular year attempts to forecast the amount of tobacco needed for domestic and foreign markets, with a slight carryover. When a marketing quota is announced by the Government, individual farmers are told how much tobacco they will be allowed to market.

Based on this quota, whatever it is for that year, farmers make plans—credit plans, plans for the purchase of seed, fuel, and fertilizer, plans for labor needs, and so forth. After they harvest, the farmers go to market expecting some fair return on their investments, only to find out that the buyers don't need quite as much tobacco as they planted—either buyers don't want it or they offer a low price for it. Why has this happened?

Because cheaper tobacco has become available and buyers, who understandably are looking for the best price, are simply purchasing the cheapest tobacco. Then, if that home-grown tobacco is not sold at auction for at least 1 cent more than the established price support loan level, it goes into the pool—in other words, under loan.

The farmer, as I mentioned earlier, is responsible for any losses that might occur on sale of this loan tobacco. That is where his contribution to the no net cost fund comes in.

If that loan tobacco can only be sold for less than its actual value, the farmer's contribution to the no net cost fund increases the next year if the fund is insufficient. Understand, at this point, the imported tobacco is no longer duty-free because the American tobacco farmer is paying the duty.

Tobacco is the only commodity in the price support loan system that is required by law to operate at no net cost—the only one. I think it is unfair to threaten the livelihood of tobacco farmers with the possibility of increased imports; there are plenty of cheap imports in the marketplace already.

Imports posed the greatest threat to the economic viability of the tobacco-producing community. The added threat of duty-free imports, on top of the existing financial crisis in the agricultural sector of our economy, is asking too much of our American tobacco farmers. I think it is time to take a little bit better care of the American people first.

I say to my colleagues who, whenever the word tobacco is mentioned, start talking about smoking and health, that this is not a health issue; it is an economic issue. Americans will continue to smoke. It is a matter of whether people will be smoking American tobacco or more foreign tobacco.

Imports already account for three-tenths of the tobacco in cigarettes produced in the United States. People are not going to get healthier by smoking imported tobacco and, as a matter of fact, many of our health safeguards, such as pesticide restrictions, are not in place in the Caribbean countries.

I am informed by the U.S. Department of Agriculture and the Special Trade Representative's office that the impact on American tobacco will be minimal, approximately 30 million pounds. If this is the case, if so little tobacco is expected to be imported under this legislation, its exemption would not impact significantly on the intent of the legislation.

Mr. Chairman, I appreciate your indulgence today and respectfully request that you give serious consideration to the effect that this legislation will have on the American tobacco farmers. They too pay taxes and will be paying for this program if it is enacted.

Thank you very much.

[The statement of Mr. Hopkins follows:]

STATEMENT OF HON. LARRY J. HOPKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. Chairman, I appreciate the opportunity to present this statement before the Ways and Means Committee for consideration during deliberations on H.R. 2769, the Caribbean Basin Economic Recovery Act.

Let me take this opportunity to say that I'm not opposed to the Caribbean Basin Initiative concept in its present form. I applaud the President's efforts to economically assist the Caribbean countries. I was recently in El Salvador and saw, first hand, the need for development of the region. However, this assistance should not be to the detriment of American citizens. As ranking minority member of the Subcommittee on Tobacco and Peanuts, of the House Committee on Agriculture, and the Representative from the largest burley tobacco-producing congressional district in the country, I am particularly alarmed by the potential for economic harm to America's tobacco producers.

As you remember, last year, the Congress passed the No Net Cost Tobacco Program Act. The tobacco program now operates at no net cost to the American taxpayers, except for administrative expenses. Any losses on price support loans will be paid by the tobacco farmer from a fund made up of farmer contributions. Tobacco producers cannot efficiently operate their price support program at no cost with potential interference from duty-free tobacco.

Imports of tobacco have been increasing steadily in recent years. In 1972, total imports of unmanufactured tobacco for which duties were paid were 229 million pounds. In 1982, that figure had increased to 376.5 million pounds. With the duty-free treatment of tobacco from Caribbean countries as provided for in H.R. 2769, the possibility exists for further increases in imports.

I am distressed by this possibility. If larger quantities of cheaper, imported tobacco begin to enter this country, there is no doubt in my mind that this tobacco will be bought instead of our American-grown tobacco. Let me set up a possible scenario. The marketing quota for any particular year attempts to forecast the amount of tobacco needed for domestic and foreign markets, with a slight carryover. When a marketing quota is announced by the Government, individual farmers are told how much tobacco they will be allowed to market. Based on this quota, whatever it is for that year, farmers make plans—credit plans, plans for the purchase of seed, fuel, and fertilizer, plans for labor needs, and so forth. After they harvest, the farmers go to market expecting some fair return on their investments, only to find out that the buyers don't need quite as much tobacco as they planted—either buyers don't want it or they offer a low price for it. Why has this happened?

I'll tell you why—because cheaper tobacco has become available and buyers, who understandably are looking for the best price, are simply purchasing the cheapest tobacco. Then, if that home-grown tobacco is not sold at auction for at least 1 cent more than the established price support loan level, it goes into the pool—in other words, under loan. The farmer, as I mentioned earlier, is responsible for any losses that might occur on sale of this loan tobacco. That's where his contribution to the no net cost fund comes in. If that loan tobacco can only be sold for less than its actual value, the farmer's contribution to the no net cost fund increases the next year if the fund is insufficient. Understand—at this point, the imported tobacco is no longer duty-free. Who is paying the duty? The American tobacco farmer, that's who!

Tobacco is the only commodity in the price support loan system that is required by law to operate at no net cost—the only one. I think it's unfair to threaten the livelihood of tobacco farmers with the possibility of increased imports—there are plenty of cheap imports in the marketplace already. Imports pose the greatest threat to the economic viability of the tobacco-producing community. The added threat of duty-free imports on top of the existing financial crisis in the agricultural sector of our economy, is asking too much of our American tobacco farmers. I think it's time to take a little bit better care of the American people first.

I say to my colleagues who, whenever the word tobacco is mentioned, start talking about smoking and health, that this is not a health issue—it is an economic issue.

Americans will continue to smoke. It's a matter of whether people will be smoking American tobacco or more foreign tobacco. Imports already account for three-tenths of the tobacco in cigarettes produced in the United States. People are not going to get healthier by smoking imported tobacco and, as a matter of fact, many of our health safeguards, such as pesticide restrictions, aren't in place in the Caribbean countries. As a matter of fact, no Government agency tests imported tobacco for pesticide residues—and imported tobacco now constitutes 31 percent of a cigarette.

I am informed by the U.S. Department of Agriculture and the Special Trade Representative's office that the impact on American tobacco will be minimal, approximately 30 million pounds. If this is the case, if so little tobacco is expected to be imported under this legislation, its exemption would not impact significantly on the intent of the legislation.

I ask this committee to give careful consideration to the points I have raised. The exemption of tobacco from those articles eligible for duty-free entry into the United States is vital to the effective operation of the no net cost tobacco program. In your deliberations on ways to help the economies of countries in the Caribbean, I respectfully request that you give serious consideration to the effect this legislation will have on America's tobacco farmers. They, too, pay taxes and will be paying for this program if it is enacted.

I appreciate the opportunity to present this statement for your consideration.

Mr. GIBBONS [presiding]. Mr. Vander Jagt.

Mr. VANDER JAGT. I thank you for your patience throughout this morning, and I welcome you and compliment you on a very clear and persuasive statement.

One brief question. The 376.5 million pounds of tobacco that come in now, what is the source of that tobacco?

Mr. HOPKINS. It is coming from all parts of the world.

Mr. VANDER JAGT. How much of it from the Caribbean now?

Mr. HOPKINS. 61 million pounds of the 365.

Mr. VANDER JAGT. Thank you, and thank you for being here.

Thank you, Mr. Chairman.

Mr. GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman. I, too, would like to welcome our colleague from Kentucky. I am a little confused. You seem to be arguing that the amount of trade from the Caribbean in tobacco is so small that exempting tobacco from the bill would not have any deleterious effect on the CBI.

On the other hand, you argue that the tobacco bill under the CBI will have some major impact in the tobacco industry and therefore ought to be exempted. Don't we need to get on one side or another?

Mr. HOPKINS. Mr. Pease, let me explain that if I may. I think it is a good question. It relates back to the heart of this, inasmuch as tobacco is the only commodity that has a no-net-cost provision. In other words, the producers of tobacco are the ones who pay for any loss in that commodity. And the Government currently regulates tobacco and tells the farmer how much tobacco he can raise.

So every pound of tobacco that is imported into this country prevents the American farmer from competing. That means that is a pound of tobacco that an American farmer cannot raise, cannot market and I think that is unfair.

Mr. PEASE. Do you mean to say the growing limitations are changed if there are imports in the country?

Mr. HOPKINS. Yes, absolutely.

Mr. PEASE. That is interesting. I had understood that allotments are not for a certain amount every year or the same amount every year. They vary from year to year?

Mr. HOPKINS. That is right.

Mr. PEASE. And that the allotments go according to a total of all the tobacco consumed in the United States?

Mr. HOPKINS. That is correct.

Mr. PEASE. And if more tobacco is imported that reduces the allotment to the American growers?

Mr. HOPKINS. Exactly.

Mr. PEASE. That is very interesting. I can understand why the farmers would be concerned even though as I understand at the moment imports from the CBI represent only about 7 percent of all imports.

Mr. HOPKINS. That would be approximately right. The bill I think calls for some 30 million pounds of burley tobacco to be allowed to be brought in here duty free. The amount of poundage really is not the important factor, Mr. Pease. It is 1 pound that the American farmer can't even compete with fairly on price or anything else. It is a pound that he cannot grow.

Mr. PEASE. I am told again and again in trying to represent my district that that has automobiles and steel that we have to be prepared to make some sacrifices inasmuch as exports of other commodities help our country in general and that we ought to be willing to sacrifice a bit among our autoworkers and steelworkers.

I understand that in tobacco products our trade surplus is about $2.3 billion a year. We export more than we import.

Mr. HOPKINS. Yes, sir, that is correct.

Mr. PEASE. Does that argue that tobacco farmers ought to be willing to make a few sacrifices in order to gain that $2.3 billion in export?

Mr. HOPKINS. No. I think that history will show that the American share of exporting is reducing itself almost annually and then to unfairly compete with an initiative like this I think really puts a tobacco farmer at a distinct disadvantage in my opinion.

Mr. PEASE. Fine. Thank you very much.

Mr. HOPKINS. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Campbell will inquire.

Mr. CAMPBELL. I, too, want to welcome my colleague. I want to go back to a couple of points that you brought out in your testimony and I would like to ask you about it. The health issue that you mentioned, did I hear you correctly that there are not any pesticide restictions in place on the tobacco grown in this area?

Mr. HOPKINS. That is correct. There are no pesticide restrictions on tobacco imported into our country.

Mr. CAMPBELL. Well, let me ask you this: Does our Government test any of this tobacco for any kind of pesticide residue when it comes in now?

Mr. HOPKINS. No, it does not.

Mr. CAMPBELL. They don't?

Mr. HOPKINS. No, sir.

Mr. CAMPBELL. Well, we do our own. We have restrictions of our own.

Mr. HOPKINS. That is correct.

Mr. CAMPBELL. How much of this tobacco finds its way into our own cigarettes now?

Mr. HOPKINS. About one-third in a cigarette.

Mr. CAMPBELL. We have one-third that is tested and if we expand that we are expanding the amount of tobacco going into our own cigarettes that are not tested. Anybody that is worried from a health standpoint ought to be worried about that; should they not?

Mr. HOPKINS. I would think so.

Mr. CAMPBELL. Let me ask you another question about the tobacco program, the no net cost tobacco program. You correct me if I am wrong that we have a loan pool and when the farmer goes to market of course he sells his tobacco and if he has to, we have the loan pool and if there is a lot in the loan pool at the base price, then that farmer, the next year, has to subsidize themselves through that pool.

Mr. HOPKINS. That is correct. He pays for any losses that might be incurred through that product. Tobacco is the only commodity that does that.

Mr. CAMPBELL. If he is the only one that does that and you increase this other tobacco and increase his losses, is not that farmer, in fact, being asked to subsidize the import?

Mr. HOPKINS. He is, in fact, paying the duty that will be coming into this country from the Caribbean Basin because he will pay for any losses that might be incurred because he cannot compete with it, Mr. Campbell. I think you are right on target.

Mr. CAMPBELL. I don't mind making our people compete head to head but I hate to then put a penalty on them by making them pay because they have lost for other reasons. So that, to me, just does not make a great deal of sense.

Mr. HOPKINS. Yes, sir.

Mr. CAMPBELL. I can understand the gentleman's concern. We have tobacco in my State. It is not the same as yours. You are burley and we are Flue cured. I understand that this bill does have some protections in it about mixing and shipping which are absolutely necessary.

Mr. HOPKINS. Yes, sir.

Mr. CAMPBELL. And we certainly support those provisions but I do have a lot of concern about the impact that this could have on the program and certainly the bill needs to be at least modified to address some of these concerns. Either they are going to meet some of our health restrictions coming in and we are not going to penalize our farmers to come in but we ought to exempt it.

Mr. HOPKINS. Yes, sir, I appreciate that.

Mr. GIBBONS. Thank you.

Mr. HOPKINS. Thank you, Mr. Chairman. Thank you very much.

Mr. GIBBONS. Our next witnesses are a panel. The Honorable Ron de Lugo and the Honorable Julio Brady who is Lieutenant Governor.

STATEMENT OF HON. RON DE LUGO, A DELEGATE TO CONGRESS FROM THE VIRGIN ISLANDS

Mr. DE LUGO. Good morning, Mr. Chairman.

Mr. GIBBONS. Good morning.

Mr. DE LUGO. I want to thank you and this committee for the opportunity to appear before you this morning. I have a rather detailed statement here.

Mr. GIBBONS. You may proceed any way you want to.

Mr. DE LUGO. I will submit it in its entirety and ask unanimous consent that it and an accompanying statement from the Honorable Hugo Dennis, Representative of the Virgin Islands Legislature, be entered in its entirety in the record.

I think it is a very good statement and outlines the entire situation as far as the CBI and our position goes.

I could be very brief and I will be very brief because I think that our case has been made for us here before this committee this morning. I just want to start out by saying, Mr. Chairman, that I want to thank you and I want to thank my friends on the Ways and Means Committee and the Members of the House of Representatives who have listened sympathetically to my concerns about the CBI.

Let me begin by saying that I support the CBI and I want to see it become a reality and something that will really help in the Caribbean where I live and where my family has lived since 1876.

I am not going to go into all the details because this committee is already aware of the importance of the rum industry to the U.S. Virgin Islands. The excise tax revenues on our rum represent about 20 percent of our total operating budget and the loss of these revenues would be simply devastating to the Virgin Islands.

And so as I sat in the audience today I was shocked and I am sure many were shocked. As under questioning from Congressman Jimmy Shannon, the administration admitted that there is no realistic protection for the Virgin Islands rum industry to be found in the 1974 Trade Act and that there is no protection for us. And then when a member of the committee offers to work with the administration and said in line with that, will you sit down with me and with Congressman Jenkins and Congressman Fowler and Congressman Rangel and work this out, the administration says no.

The administration is constantly lumping us together and saying that we, meaning the Virgin Islands and Puerto Rico control 96 percent of the U.S. market. The Virgin Islands, which I represent, controls only 11 percent of the U.S. market and I would like to say that the foreign multinational rum producers that exist in the islands of the Caribbean control at least that much of the Canadian and Eurpean market.

I also want to say, Mr. Chairman, that what we are talking about here and what my concern is is bulk rum, and there are several different kinds of bulk rum. There is the aged bulk rum, the high end of the market; and there is the low end of the market, the unaged bulk rum. It is the unaged bulk rum that we are concerned about because it is a penny difference market.

I am here today to explain to you why our rum industry is so vulnerable under the CBI. The U.S. Virgin Islands produces a product, as I said, at the low end of the rum line. It is unaged, unlabeled, and it is shipped in bulk to the United States. It is primarily used in premixed drinks and for house labeling. It represents, again I will say 11 percent of the total market. It is the cheapest form of rum, basically a commodity and in the market of this type of rum a few pennies a gallon makes the difference. It makes or breaks the sale.

Advertising, channels of distribution, they hold no sway. Cost is the only determining factor for market share.

If the duty is lifted on this type of rum coming from foreign islands where wages are lower than the U.S. wages we pay and costly Federal controls are nonexistent, we can't undersell them and that is the bottom line.

The Virgin Islands rum is 11 percent of the rum market. Our foreign competition has about 3 percent of that. But our foreign competition also commands at least as large a share of the Canadian and European markets where they can enter duty free. We are virtually excluded from those markets by tariffs and by other import restrictions. No offers have been made to allow us duty free into those markets, and yet we are now talking about giving our competition a chance to throw us out of the U.S. market.

Right now our foreign competition is shipping to the United States either bottled rum or a higher caliber aged, labeled bulk rum. They are not at the moment in competition with us in the bottom of the line unaged, unlabeled bulk product. But, and I must emphasize this point, if the duty is lifted on all rum across the board, including this type of rum, they will enter this market and it has been pointed out here today in these hearings that there is no recourse or realistic protection for us.

Why would they enter the market? Because it is easier to produce this rum. It involves less distilling steps. They have unused distillery capacity already so it does not even provide new jobs and we will be ripe for the pickings. The foreign producers have claimed that they are not interested in this market. Well, if they are not interested, why should anybody be concerned if we put some language in this bill that protects us at the low end of the market?

I have a proposal, H.R. 3108, which I introduced 2 weeks ago which now has 122 cosponsors covering the entire political spectrum of this House. Many of the members of this committee are cosponsors. Many of those who are cosponsoring the administration's CBI are cosponsors and I am grateful to my colleagues for the strong showing of support that they have given to me on this issue.

That proposal retains the duty of all bulk rum but I would like to state clearly again that I am not locked in concrete on that proposal as the only possible solution that there are and there can be other possible solutions that will protect the bottom line of the rum market that the Virgin Islands has and that the foreign rum producers say they don't want.

This is my sole concern and I am willing to compromise at any time as long as the Virgin Islands is protected. This is critically important to the U.S. Virgin Islands. I want to assure you and your committee, Mr. Chairman, of the sincerity of our willingness to meet with you to work out any form of compromise. I would hope that the administration would rethink its position about its attitude toward the U.S. citizens of the U.S. Virgin Islands and sit down with us and try to work something out.

I would also like to add that it is in the best interest of the United States that its U.S. territories and the Caribbean are economically strong and that it would make no sense at all to have

those territories locked in bitter combat over rum with their Caribbean neighbors when, in fact, we can be extremely instrumental in helping the United States achieve its goals in this area.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. RON DE LUGO, A DELEGATE TO CONGRESS FROM THE VIRGIN ISLANDS

Mr. Chairman: Since the spring of 1981, when plans for the development of a new Caribbean Basin Initiative were first announced, the U.S. Virgin Islands has consistently commended the President for addressing the long-neglected problems of this area of the world. However, the U.S. Virgin Islands has also consistently expressed its concern as to the impact of the CBI on the insular possessions. Specifically, those concerns fall into two categories.

First, we are concerned that any trade and tax benefits extended to foreign countries under CBI not erode the delicate economic base that the Congress of the United States has carefully constructed over three decades to stabilize the insular possessions economically and politically.

Second, we expressed our concern that the insular possessions in the Caribbean not be excluded from playing an active role in the implementation of the Caribbean Basin Initiative.

These islands in the eastern Caribbean are closely tied to the U.S. Virgin Islands. We share a common history and culture. Fully half of the entire population of the U.S. Virgin Islands is from this area. Half of our students are children of non-U.S. citizens. Our school population now is equivalent to our entire population of two decades ago.

A very large percentage of our work force is from down-island, and moneys sent "back home" from employment in our islands represent major revenues to our neighbors and provide, even now, a stability that would not otherwise exist.

Our media reaches all the way down in the island chain, and with families and businesses so interwoven, telephone communication is constant. The College of the Virgin Islands, which we established 15 years ago, is a center for higher education and the exchange of ideas in the region, and nearly 40 percent of its students are from our neighboring islands.

All of this places a significant financial burden on the territory, which we have willingly and proudly shouldered. For our neighboring islands, the U.S. Virgin Islands is the United States, and U.S. policies are perceived through us. It is in the very best interests of the United States that the U.S. Virgin Islands remain the healthy, developing islands they are today.

In responding to our concerns on January 25, 1982, the President stated that ". . . the Initiative should be structured so as to reinforce and continue the impressive economic gains achieved by the Virgin Islands and Puerto Rico." And on March 17, 1982, in his transmittal statement to the Congress on CBI, the President stated: "Puerto Rico and the Virgin Islands have a longstanding special relationship with the United States. Their development must be enhanced by our policy to the rest of the region."

Mr. Chairman, rather than "enhance," the legislation on CBI as introduced last year would have seriously impaired our economies. We were able to have adopted in the Trade Subcommittee last year certain amendments which would have given us some of the safeguards we needed. We are pleased that two of those have been included in H.R. 2769 and would urge the committee that these be maintained.

One of these previous increases the ceiling under Headnote 3a on Virgin Islands products from the current 50 percent to 70 percent. This is an equitable counterbalance to the entry benefits extended to eligible countries under CBI which will enable us to remain competitive for new industry. We were pleased that the administration supported this provision last year, and that it has included it in its proposed legislation this year. We urge the committee to retain this important provision in H.R. 2769.

H.R. 2769 also contains a provision that would allow the Governor of the Virgin Islands to make regulatory determinations on the effluent involved in rum production. The administration supported this provision when it was offered as an amendment last year, and they continue to support this provision having included it in their proposal this year. I recognize that jurisdictional concerns were raised with this provision last year. However, I would like to point out that jurisdiction was waived in the House by the chairman, and ranking members of both parties on the

Public Works Committee and the Water Resources Subcommittee, both of which I serve on. I also testified before Senator Chafee's Subcommittee on Water Pollution on this issue in April. My testimony, which covers the merits of our case and also addresses the jurisdictional matter, is attached. We urge the committee that both these crucial provisions be maintained.

While we were pleased that those provisions have been included, Mr. Chairman, we are greatly concerned with two other matters which, if unresolved, will make CBI extremely deterimental to the future economic, social and political stability of the U.S. Virgin Islands.

The economy of the U.S. Virgin Islands is based on two main supports: The rebated excise taxes collected on our rum exports to the mainland; and tourism. H.R. 2769 threatens both those supports.

Let me explain first why rum is so important to us.

In 1954, the Congress, which has full plenary authority over the territories, sought to provide a mechanism that would bring development and stability to Puerto Rico and the Virgin Islands. Provisions were adopted that rebated to those two possessions the excise taxes collected on their respective rum imports into the United States. In 1954, this meant about $1 million to the Virgin Islands, and over the years, this fund has grown to a high of nearly $40 million.

We call these moneys our matching fund. It is, in essence, our only capital improvements budget and it has been used to match Federal funds for schools, roads, infrastructure, all the appertenances we needed to move from the very poor, underdeveloped, economically shaky territory we were in 1954, into the thriving and stable society we are today. The United States should be rightly proud, as we are, of this accomplishment.

Clearly, it was the rum excise tax fund that did it. That fund represents now nearly 20 percent of our total operating budget, and anything that threatens that fund threatens our very existence, let alone our future.

Mr. Chairman, now that I have explained why our rum industry is so important, let me now explain why it is so vulnerable.

Rum shipped from the U.S. Virgin Islands has only 11 percent of the total U.S. market. The United States is our only market since we are effectively excluded from Canada and Europe by tariffs and other import restrictions which are not levied on most of our foreign competitors in the Caribbean.[1]

Nearly 98 percent of our total rum exports to the United States are in bulk that is shipped in containers of a gallon or more. Our product is unaged, unlabeled bulk: the bottom of the rum line. It is basically a commodity, used for repackaging as house brands, premixed drinks and food additives. The market for this product is extremely price sensitive. Removing the tariff on this type of rum would encourage foreign distillers to shift production to this area and render us unable to compete.

Foreign rum producers in the Caribbean command the Canadian and European markets and have 3 percent of the U.S. market. A large percentage of their product enters the United States in bottles, and practically all of their bulk rum shipments are of a higher caliber, aged product. Production costs in these islands are far lower in these islands, most of which grow their own sugar for molasses, the primary ingredient in rum production which we must import. Wages are substantially lower. In Jamaica, distillery workers are paid the minimum wage of $0.45/hour (US$). Hourly rates in the Dominican Republic in the rum industry average $0.65/hour (US$) to a maximum of $1.69/hour (US$) for supervisors. In Barbados, which pays the highest wages, distillery workers average $2.20/hr (US$). In the USVI, wages for distillery workers, who are unionized, start at $4.91, and a 10 percent contractual increase is due this month. In addition to substantially lower wages, our foreign competitors are not subject to the same costly Federal regulations as the Virgin Islands plants.

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[1] Canada assesses a tariff of $1.50/gallon on U.S.V.I. rum, and although Canada does not have a quota on USVI rum per se, provincial agencies are authorized to establish limits beyond which rum may not enter, even if the tariff is paid. Antiqua, Barbados, Guyana, Jamaica and Trinidad all enter Canada duty-free, and consequently command the market. European countries assess tariffs averaging $1.73/gallon on USVI rum, while any rum imported from a former colony of any common market may enter duty-free, and consequently command that market also.

It must also be noted that foreign Caribbean rum producing islands levy extremely high tariffs on USVI rum, and in some cases, flat our prohibitions. In Jamaica, tariffs on USVI rum are $59 (US$) per gallon on 80 proof or less, and $71 per gallon on more than 80 proof with the added restriction that no USVI rum may be imported if there is sufficient local production. The Dominican Republic has a tariff of $4.92 (US$) per gallon with a surcharge of 50 percent to 200 percent.

There is, Mr. Chairman, nothing sacred about rum. It is a commodity like any other commodity. Nor is it anymore sacred to one country or another than it is to us. The Virgin Islands has been producing and shipping rum to the United States since the American Revolution, and even before that, when the United States itself was a territory of another country. Our major producer is an American company, while a large percentage of foreign rum production in the Caribbean is owned by multinational corporations.

We believe that many Caribbean islands subsidize their rum industries in one form or another. A number of those countries are in an excellent position to subsidize rum through molasses sales at below world market prices because of the control their governments have over the sugar industry of which molasses is a byproduct, and in some cases, government ownership of the distilleries. In Jamaica, the Government owns the Jamaica National Sugar Co., and is majority owner of two distilleries and sole owner of a third. In Trinidad, the Government owns sugar plantations and a distillery, and in the Dominican Republic, the Government has officially set the maximum price of molasses at significantly less than world market prices. We have information from persons in rum industries in other islands of other subsidies. Naturally, with all the government controls in those islands, it is difficult to prove, but certainly the means and the motivation are there. On the other hand, the U.S. Virgin Islands molasses subsidies are a matter of public record as I have consistently pointed out in my testimony before this and other committees on this issue.

Clearly, the administration is cognizant of the damage that lifting the duty on foreign rum will do to our industry. Why else would the administration have included in its CBI package a provision to rebate to Puerto Rico and the U.S. Virgin Islands the excise taxes collected on foreign rums? This is obviously an injury payment.

Mr. Chairman, there is simply no way that the U.S. Virgin Islands can withstand the loss or even a reduction in our current level of rum excise tax rebates. It is our second largest revenue source, after income taxes. While our rum industry has approximately 100 direct employees, loss of the excise tax rebates would translate into the loss of thousands of jobs. An injury payment that could be rescinded at any time is no security at all. Our economy is partially grounded on the integral relationship between Government and our rum industry, and this relationship, which has proven very successful for the past 30 years, has been the key factor in the development of the U.S. Virgin Islands. Far preferable to the proposed injury payments, Mr. Chairman, would be maintenance of the industry.

The U.S. Virgin Islands and Puerto Rico have been studying this rum issue for a long time, and we have a plan which will not only allow us to remain competitive, but will make the CBI a far more effective and successful foreign policy tool than it is now. A detailed analysis of the proposal is attached to this statement. In brief, the proposal would keep the duty on bulk rum, the price-sensitive end of the business, and our major product. The duty on bottled rum however, would be lifted completely.

We do not believe that expansion of bulk rum production would resolve the economic problems of the area. It is bottled rum that is the labor-intensive end of the industry. Furthermore, we estimate that even if the entire bulk rum market of the U.S. Virgin Islands is taken over by our foreign competitors, the total amount of income taxes that could be generated on that increased production would be less than $1 million. And this would only be realized if the full U.S. corporate rate were applied, which historically has not been the case. This might be of substantial benefit to the multinationals which own much of the foreign rum production, but of little discernible benefit to the people of those islands.

It is the same islands of the Eastern Caribbean chain, excluding Jamaica, Haiti, and the Dominican Republic, which stand to benefit the least under CBI appropriations. Of the fiscal year 1983 appropriations of $350 million, the major part went to Central America, $10 million to Haiti, $40 million to the Dominican Republic, and $50 million to Jamaica. The remaining 12 eligible islands of the eastern Caribbean chain shared a total of only $20 million. These are the islands which are very friendly to the United States, and which are equally in need of assistance for schools, health care facilities, and infrastructure.

Consequently, if the duty is maintained on foreign bulk rum shipments, we propose establishing with the excise taxes collected on foreign rum shipments a special Caribbean Regional Development Fund for both the rum and non-rum-producing islands. The fund would be earmarked for those critically needed items. The details of the distribution and the cap on the fund are contained in the attached analysis, but I would like to emphasize here that the fund would neither substitute for other foreign aid appropriations, nor would it constitute any increase in cost under the CBI

proposal as it now stands. Rather, the fund would offer to our neighbors the same reliable revenue source that enabled Puerto Rico and the U.S. Virgin Islands to develop into economically and politically stable societies.

Our other concern, Mr. Chairman, is the impact of that provision of the CBI which extends the convention tax benefits to eligible countries on our tourism industry. Tourism is our single largest industry and represents approximately 40 percent of our gross territorial product. Tourism accounts for one-third of all employment in the Virgin Islands and one-half of all private sector employment. Our entire economy is geared to tourism and we have already withstood substantial decreases over the past 3 years due to the mainland recession.

The neighboring islands of the eastern Caribbean represent our direct competition in tourism. These islands are extremely price-competitive due to their lower wage structures and absence of costly Federal regulations on industry components. Many already enjoy inadequacies of our runway lengths on St. Thomas and St. Croix, which do not enable us to bring in larger, fuel-efficient aicraft, and which prevent us from tapping the lucrative European market. Only three of our smaller neighboring island have a runway as short as the one on St. Thomas, our primary tourist destination.

Extension of the convention tax benefit to our tourism competition undoubtedly would place the U.S. Virgin Islands at an added disadvantage in that crucial industry, and I would urge that extension of the convention tax benefit not be extended to our competition until the airport runway extension on St. Thomas has been completed. At the same time, the CBI extends trade benefits to these islands that will restrict our ability to attack new industry and diversify our tourism-based economy.

We are particularly disturbed that these convention tax credits have been included in the CBI, since in September of 1981, when that benefit was extended to Jamaica by tax treaty, commitments were made by the administration before the Senate Committee on Foreign Relations that no further extension of the credit would be sought.

Basically, Mr. Chairman, it is evident that Puerto Rico and the U.S. Virgin Islands are being asked to share disproportionately in the financial burden of CBI. We have two major economic supports: tourism and rum excise tax rebates, and both of them will be seriously eroded by the CBI. No other jurisdiction under the American Flag stands to be so uniquely and negatively impacted.

Our Secretary of State, George Shultz, in a recent address before the Southern Center for International Studies in Atlanta on February 24, 1983, said that the CBI will cost each citizen in the United States $3.84. Mr. Chairman, we contend that it will cost the American Citizens of the U.S. territories in the Caribbean far, far more, and will in fact threaten our very economic existence.

We must, at the very least, have the protections we seek for that crucial component of our economy: our rum excise taxes. The proposal we have developed will not only accomplish that goal, but will make the CBI a far more effective foreign policy vehicle. Under our proposal, the small islands of the eastern Caribbean will have much greater opportunities to develop, and to develop in such a way that every man, woman, and child in those islands will benefit.

Our proposal on rum, Mr. Chairman, is contained in H.R. 3108 which I introduced on May 24 with 117 cosponsors, and we are continuing to add more. I am very greatful to my colleagues for the breadth and depth of their support on this issue which affects only the U.S. territories in the Caribbean. But I would like to emphasize to you and your committee that the Virgin Islands is not locked in concrete on H.R. 3108 as the only possible solution. There are other possibilities and we stand ready to work with you and your committee on alternative approaches. We are prepared to compromise at any time, as long as the Virgin Islands is protected. This is one of the most crucial issues we have faced because the rum industry is vitally important to our economy and to our very social and political fabric.

But our concern goes even beyond the rum industry per se. The United States must keep its territories in the Caribbean strong for its own best interests. Expectations about the CBI are running extremely high in our neighboring islands. The United States will need its Caribbean territories to make the CBI work. For our unique experience as insular economic entities will enable us to assist and guide our neighbors in translating the CBI into meaningful benefits for the people of those islands, benefit that will enable them to grow economically, socially, and politically strong as we have. For it is the people of those islands, the body politic, our friends, neighbors, and relatives, that will determine the success or failure of the CBI. But we cannot be an ally to our friends and relatives in the Caribbean or help the United States in achieving its goals if we are forced into mortal competitive combat

over rum. There are far more at stake here than a handful of multinational rum producers.

I urge you and you committee, Mr. Chairman, to recognize the reality of our concern and the sincerity of our efforts to resolve that issue in the best interest of all concerned. I will repeat our willingness to work with you and your committee on an acceptable resolution.

[ATTACHMENT A]

STATEMENT OF CONGRESSMAN RON DE LUGO, SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS, SUBCOMMITTEE ON ENVIRONMENTAL POLLUTION, APRIL 7, 1983

Mr. Chairman: I appear before the Subcommittee today to discuss one narrow issue that has enormous ramifications for the people of the U.S. Virgin Islands. This issue affects my constituents alone and is one that I first raised before this subcommittee in 1977.

The economic well-being of the Virgin Islands has been built upon the continued vitality of two industries: tourism and rum production. We well understand the importance of protecting the environment. The natural beauty of our islands is responsible for the livelihood of thousands of Virgin Islanders. At the same time, we recognize the necessity that our islands continue to develop economically, consistent with our environmental concerns.

Rum production is an activity that is of crucial importance to the economy of the Virgin Islands. This importance lies not so much in the jobs and investment that are involved in rum production, although the 100 jobs and the investment of a few million dollars associated with rum production are significant in an economy as small as ours. Rather, this subcommittee should be aware that for every proof gallon of Virgin Islands rum sold in the United States, the Government of the Virgin Islands receives the $10.50 excise tax collected by the Federal Government. This excise tax rebate system provided nearly $35 million to the Virgin Islands Government during fiscal year 1982. That is about $300 for each Virgin Islander, man, woman, and child, and it constitutes the largest source of revenue for the Territorial Government, apart from income taxes. Consequently, Mr. Chairman, any action which eliminates or significantly harms our rum industry would be a serious blow to the people and Government of the Virgin Islands.

Today, the Virgin Islands rum industry faces two threats to its future emanating from proposed or existing Federal legislation. One is the proposal, contained in the bill implementing the administration's Caribbean Basin Initiative, that would grant unlimited duty-free entry into the United States to rum produced in foreign Caribbean countries. Unlike the brand-name rums produced in Puerto Rico, Virgin Islands rum is especially sensitive to price competition. A sudden influx into the United States of inexpensive foreign Caribbean rum would, therefore, have a disproportionate impact on the rum industry of the Virgin Islands.

The second, and more immediate, threat is the possibility that the Environmental Protection Agency will force the construction of a costly and environmentally unjustified threatment facility to treat the biodegradable effluent produced in the course of rum distillery operations. Mr. Chairman, I believe there is no other regulatory decision involving the construction of a single industrial treatment facility that has as great a potential impact on a State or territorial government as does this case. Unfortunately, I must report to you today that more than 5 years of attempts to obtain administrative relief have not produced a satisfactory result.

The biodegradable effluent produced by rum distilling operations is currently discharged through an outfall into the oxygen-rich waters of the Caribbean Sea off the south shore of St. Croix. There it is rapidly assimilated without causing environmental harm. This discharge is not the source of local complaint. On the contrary, they question why a company should be forced to spend millions of dollars, at least twice the book value of its existing fixed plant, to treat a discharge which no one has shown to cause any identifiable harm to the environment.

Local environmental authorities are in agreement on the benign nature of this effluent. They are concerned only about the temporary discoloration to the ocean water caused by the effluent prior to its dispersion. They tell me, however, that this concern could be addressed by the addition of diffusion equipment to the end of the outfall line, something the distiller is prepared to install. Despite the governmental and public consensus that physical or chemical water quality off St. Croix is not being harmed by rum effluent discharges, EPA has, to this point, insisted upon the construction of a waste treatment facility. What compounds our concern is that the facility proposed would contribute to air pollution and possibly even create a solid

waste disposal problem while doing nothing to enhance the quality of the receiving waters.

Why has EPA taken this position? Such a facility is supposedly justified by an interpretation of the Clean Water Act in which EPA places a priority on the reduction of the effluent's oxygen-absorbing capacity, to the exclusion of consideration of factors of water quality, other environmental impacts, or whether any person, fish, or plant will be better off as a result. This percentage reduction numbers game ignores an important fact. The waters of the Caribbean Sea into which the discharge is made are fully capable of supplying the oxygen to cause the breakdown of the effluent without harming marine life. How do I know this? Because it has been going on for more than 15 years with no fish kills, no smell, no contamination of drinking water or food supply, no endangerment of any species, and no public distress.

Despite pending efforts on the part of rum producers and political leaders in the Virgin Islands to persuade EPA to alter its administrative approach, there appears to be no certainity that a regulatory solution to this problem will be forthcoming. Continued insistence upon the construction of the treatment facility proposed by EPA will severely jeopardize the ability of Virgin Islands rum producers to compete successfully in a price-sensitive market. Even if there were no CBI legislation pending, this situation would be deserving of legislative relief.

Mr. Chairman, you will recall the efforts that were made last year to solve this regulatory problem. Twice in 1982, the House passed an amendment I proposed that would have placed the control of discharges of distillery effluent in the hands of the Virgin Islands Government, where a meaningful assessment of the environmental consequences of these effluent discharges can be made. A copy of my amendment, which would protect water quality and permit treatment levels to be based on observable environmental conditions, is attached at the end of my statement. Jurisdictional considerations in the Senate prevented enactment of my amendment last year. I ask this subcommittee now to give it favorable and expeditious consideration.

This year, my amendment is included in legislation introduced on behalf of the administration to implement the trade and tax provisions of the Caribbean Basin Initiative, S. 544. There is a recognition in many quarters, including the administration, that it is simply unfair for the Virgin Islands rum industry to be forced to cope with increased competition from neighboring islands not subject to the jurisdiction of the EPA or the requirements of the Clean Water Act and, at the same time, bear the unprecedented and unproductive increase in production costs that treatment facility construction and operation would entail. I should point out that increased rum production in neighboring islands at the expense of Virgin Islands rum producers would simply result in increased discharges of rum distillery effluent into the same body of water from different locations in the Caribbean.

Mr. Chairman, I am sensitive to the jurisdictional concerns of this subcommittee and the Committee on Environment and Public Works. I can understand why some believe that amendments to the Clean Water Act, and not the CBI, are the proper legislative vehicle for any regulatory relief for the Virgin Islands rum industry. In fact, when the House Subcommittee on Water Resources, of which I am a member, considers amendments to the Clean Water Act, I will seek to have my amendment included in any bill the subcommittee reports.

We cannot ignore, however, the presence of the CBI, the administration's commitment to see it enacted quickly, or the devastating effect that such enactment would have in the absence of regulatory relief for the Virgin Islands rum industry. In the event that legislative action on the CBI precedes action on Clean Water Act amendment, I ask that there be no jurisdictional objections to the inclusion of my amendment in the CBI. CBI legislation that allows increased duty-free treatment for foreign Caribbean rum while failing to provide adequate regulatory relief to the Virgin Islands rum industry would be a true hardship for the Virgin Islands.

In closing, let me speak to the specific effects of my amendment. It would, in sum, grant the Virgin Islands Government control over the determination of treatment levels for the Virgin Islands rum industry's nontoxic effluent. First, the terms of my amendment would insure the local water quality is protected, and protected by people who cannot afford to allow their ocean water quality to deteriorate. What is changed by my amendment? Simply this—it avoids the automatic application of treatment standards that would be justified with respect to discharges into lakes and rivers in the mainland United States, but make little sense with respect to a discharge into the highly oxygenated open seawaters of the tropics. Second, the only people conceivably affected by rum industry discharges are Virgin Islanders. Local control of these discharges would not prejudice the interests of any other island or territory, American or non-American. Third, local control is consistent with the

principle of state "primary responsibility" found in section 101(b) of the Clean Water Act. Finally, I want to emphasize that enactment of my amendment would not provide a precedent for other changes to the Clean Water Act. It would not attract rum distillers from elsewhere in the United States since it provides relief only for existing point sources. It would not provide Virgin Islands distillers with an unfair competitive advantage over other U.S. rum distillers.

Mr. Chairman, I ask that my amendment be included in any Clean Water Act amendments reported by this subcommittee and that there be no jurisdictional objections to the inclusion of my amendment in any CBI legislation which may be enacted. At this time, I would be pleaded to respond to any questions or comments members of the subcommittee may have.

PROPOSED VIRGIN ISLANDS RUM DISCHARGE AMENDMENT

Any discharge from a point source in the United States Virgin Islands in existence on the date of the enactment hereof which discharge is attributable to the manufacture of rum (alcoholic spirits classified under items 169.13 and 169.14 of the Tariff Schedules of the United States (19 U.S.C. § 1202)) shall not be subject to the requirements of section 301 (other than toxic pollutant discharges), section 306 or of section 403 of the Federal Water Pollution Control Act if—

(1) such discharge occurs at least 1,500 feet into the territorial sea from the line of ordinary low water from that portion of the coast which is in direct contact with the sea, and

(2) the Governor of the United States Virgin Islands determines that such discharge will not interfere with the attainment or maintenance of that water quality which shall assure protection of public water supplies, and the protection and propagation of a balanced population of shellfish, fish, and wildlife, and allow recreational activities, in and on the water and will not result in the discharge of pollutants in quantities which may reasonably be anticipated to pose an unacceptable risk to human health or the environment because of bioaccumulation, persistency in the environment, acute toxicity, chronic toxicity (including carcinogenicity, mutagenicity, or teratogenicity), or synergistic propensities.

STATEMENT OF HON. JULIO BRADY, LIEUTENANT GOVERNOR, U.S. VIRGIN ISLANDS, ON BEHALF OF HON. JUAN LUIS, GOVERNOR

Mr. GIBBONS. Governor Luis.

Mr. BRADY. Mr. Chairman, on behalf of Governor Luis, let me first send his regrets. He was unable to come this week because this week our legislature has been considering some important proposals and nominations that he has sent down and he thought it was imperative for him to remain in the territory during such a critical period. He has asked me to come and represent him and the people of the Virgin Islands on this very, very important issue to us.

The outline given by Delegate de Lugo I think covers the substance of the bill now before you and our particular interests thereon.

I would just like to point out a few things very briefly before we are available for questioning. Not only are the excise taxes on rum an important economic measure to us. They are an important symbol to us as well. I heard this committee say this morning and I have read other statements that the symbolism of rum to the Caribbean area of the world is important.

Symbolism of rum is important to us not because it is characteristic of the region. We take no particular pride in the fact that we produce rum. What is important to us as a symbol is that rum—and the excise taxes rum produces—has become the single most important industry in our beginning attempts at self-sufficiency.

The predictable, steady source of revenue provided by the excise taxes on rum which are returned to us through that industry have been the cornerstone of our economic development.

If we lose our industry—and I believe that is a real and present danger if this administration's proposal is passed as is—you are taking away from us our most cherished hope and that is to gain a degree of economic self-sufficiency.

But over and above that, our alternative proposal has merit not just in protecting America and the Caribbean and the Virgin Islands, but I think it enhances the fundamental goals and objectives of CBI which is to create economic prosperity and self-sufficiency in the Caribbean foreign nations.

In the same sense that we have developed and are developing a better infrastructure and a more dependable and predictable source of revenue, so too could other Caribbean countries under the development fund which this bill would set up. So too could the fund be used for the same purpose of self-sufficiency and economic advancement by the foreign Caribbean.

H.R. 3108 would encourage private sector development in the Caribbean, providing for the creation of new jobs. The fund incentives would be used by the governments for the government's own priorities and most importantly it would add an incentive for self-sufficiency.

The Virgin Islands has more than a special relationship with the United States. We are Americans and we hope America is us. I trust that this committee will keep that in mind as they consider the ramifications of the CBI initiative and will see that the proposal we have made not only will serve the laudatory purpose of protecting America in the Caribbean but will actually advance and enhance the goals of this Nation in helping others to be more self-sufficient.

Thank you very much.

[The statement of Governor Luis follows:]

STATEMENT OF HON. JUAN LUIS, GOVERNOR, U.S. VIRGIN ISLANDS

Mr. Chairman, distinguished Members of the Committee, thank you for this opportunity to present the views of the United States Virgin Islands regarding the President's proposed Caribbean Basin Initiative (CBI).

Last year, I urged this Committee to retain certain amendments to the CBI, approved by the Trade Subcommittee, which would maintain and improve the ability of the Virgin Islands to continue to develop its economy in the context of the far-reaching free trade provisions which form the "centerpiece" of the CBI plan. Primary among these amendments was a provision that would have limited the amount of duty-free rum that could enter the United States from the non-U.S. Caribbean.

I am here today to present a new rum proposal which we believe offers substantially greater benefits to the Caribbean region than the Administration proposal, while providing legitimate protection for the Virgin Islands bulk rum industry—the most price sensitive and import sensitive segment of the U.S. rum market. Our new proposal will generate more jobs and more government revenues for the foreign Caribbean than the Administration proposal. It has been endorsed by the U.S. Commerce Department-sponsored Puerto Rico-Virgin Islands District Export Council, a group representing the private sector in the U.S. Caribbean. The proposal deserves the support of this Committee.

Protection of the Virgin Islands bulk rum industry is essential to the long-term financial stability of the Virgin Islands Government, as well as the long-term survival of the Territory's rum industry. Because, for 30 years, Congress has returned to the Virgin Islands the excise taxes on Virgin Islands rum sold in the United

States, the rum industry generates for the Territory approximately 35 million dollars per year, about 15 percent of the Virgin Islands annual budget. These funds are used to finance the construction of sorely-needed capital projects which provide jobs and improved infrastructure such as reliable supplies of water and power, improved roads and schools, etc. These, in turn, are urgently needed to attract new private investment and more jobs.

About 97 percent of the rum produced in the Virgin Islands and sold in the U.S. market is shipped in bulk. Bulk rum is a price-sensitive and import-sensitive commodity. It is used in pre-mixed cocktails and food preparation and is bottled under various private labels. Purchasers of bulk rum are most interested in obtaining the least expensive product available.

Bottled rum, on the other hand, is generally sold as a name brand product and thus is not as sensitive to competition from lower cost products.

The Administration CBI bill recognizes that the Virgin Islands and Puerto Rico stand to lose rum sales to low-priced foreign Caribbean nations once the tariff is removed, due to low wage rates and the lack of regulatory standards regulations in these countries. Under the Administration, CBI, the Virgin Islands, and Puerto Rico would receive, in addition to the excise taxes imposed on their own rums, the excise taxes imposed on foreign rums as well. While this provision would provide some immediate protection against loss of revenue due to displacement of V.I. and Puerto Rico domestic rum by rum of foreign manufacture, it does nothing to protect the industries themselves in the long run. Under the Administration CBI bill, the Virgin Islands bulk rum industry would soon disappear and the excise tax revenues returned to the Virgin Islands for capital projects, then no longer bearing any relation to rum production in the Territory, would be put in jeopardy.

The Virgin Islands and Puerto Rico have developed an alternative which would not only protect our domestic bulk rum industries, but would also provide duty-free access to the United States for all bottled rum produced in CBI countries. However, unlike the previous proposed amendment, our present alternative takes the foreign rum excise taxes that would have been returned to the V.I. and Puerto Rico under the Administration's plan and deposits them into a special Caribbean Regional Development Fund. This fund would be used to finance planned infrastructure development of island beneficiary countries in the Caribbean. Under our proposal, the Eastern Caribbean countries would receive an additional $50 million and the Caribbean island-nations as a whole an additional $165 million over the 12 years of the CBI. These funds would be provided at no more cost to the Treasury than would be the case under the Administration's plan.

Our proposal, by eliminating the duty on bottled rum, also provides an incentive for Caribbean countries to bottle their own rum. Because bottling is labor intensive, our proposal would encourage job creation in the region. At the same time, the regional development fund would be used to finance capital projects, and through their multiplier effects, would benefit directly the island governments and their people.

In comparison, the Administration proposal would only create an insignificant number of jobs in the bulk rum industry. Many of the multi-national companies that own the larger rum distilleries in the non-U.S. Caribbean presently have unused capacity at these distilleries, so additional bulk rum production will not necessarily result in additional jobs. While the Administration proposal may result in increased profits for multinational companies, they would come at the expense of the well-being of the U.S. Territories in the region. Interestingly, the Administration proposal would not result in any significant increase in revenues to Caribben governments, whereas the V.I./Puerto Rico proposal would provide these governments with about $10–15 million per year in direct revenues.

A concern has been raised that the V.I.-Puerto Rico proposal may prevent the rum producing CBI countries from taking advantage of the duty-free provisions of the CBI because most of their current production is bulk rum. It has been stated that bottling of rum before export to the United States would make it uncompetitive. We believe strongly that the V.I.-Puerto Rico rum proposal would not result in significantly less access to the U.S. markets than the Administration's proposal for the vast majority of rums currently produced in the foreign Caribbean. Indeed, despite concerns about higher shipping costs for bottled rum, it is our understanding that the foreign rums presently shipped to the United States in bulk could easily and profitably be bottled in the producing countries without competitive disadvantage.

This is because the cost differential for shipping bottled rum, as opposed to bulk, from Jamaica to U.S. Gulf ports is less than 50 cents per proof gallon, assuming the bulk rum is shipped at 180 proof. At the lower proof that much of the aged foreign

rum is shipped, this differential is significantly less. Also, the shipping differential from other Caribbean ports to the United States is even less than 50 cents, and in some cases bottled and bulk rum shipping costs are about the same. These differentials are further mitigated by the lower cost of labor in the Caribbean.

In short, in no instance is the difference in shipping bottled rum, as opposed in bulk, even close to the $1.57 per proof galion tariff on bottled rum that the V.I.-Puerto Rico proposal would eliminate. Thus it would appear to be a highly unusual logic which suggests that an additional market preference of 0 to 50 cents per proof gallon could be worth the cost of labor-intensive bottling jobs in the Caribbean countries, millions of dollars in direct government revenues to these countries, the development of sorely needed infrastructure, and the hundreds of construction jobs and additional investment that our proposal would bring to the region.

Finally, according to the State Department, duty-free treatment for Caribbean rum may have gained symbolic importance in the context of CBI and is a political reality which the United States must constructively address. But we, in the Virgin Islands, face another reality—the distinct probability that the customers in the United States who buy Virgin Islands unaged rum on price considerations alone, who comprise the great majority of our market, will turn to foreign Caribbean rum once the tariff on bulk rum is removed. This would give the Virgin Islands little alternative but to turn again to Congress to request increased ad hoc appropriations to fund needed capital improvements now made possible by the rum matching fund. This is a step backward that this Committee should not permit. This is especially true at this time when the Virgin Islands has finally reached the point where our ability to meet many of our own needs has been increasing to such an extent that, in a few years, the Territory may not need to request any new federal appropriations.

I wish to comment briefly on two other sections of the CBI legislation. First, the House of Representatives last year adopted a provision, recommended by this Committee, to exempt the existing Virgin Islands rum distillery from EPA discharge requirements provided the Governor of the Virgin Islands determines that the exemption will not adversely affect water quality. The Administration has included the provision in this year's CBI legislation. In May, the Senate Finance Committee voted to retain this provision in this year's version of the CBI and I urge this committee to do the same. I wish to express my appreciation to the members of this Committee and the Senate Finance Committees for their support. The provision will be of significant assistance to our local rum industry should the industry be allowed to continue to prosper under CBI, as amended by our rum proposal.

Second, the House and the Administration added a new provision to the CBI legislation to permit U.S. taxpayers to deduct the cost of attendance at foreign conventions in CBI countries. The Virgin Islands opposes this additional tax benefit—which is projected to cost the U.S. Treasury millions of dollars a year—because of the adverse impact it would have on tourism in the Virgin Islands and Puerto Rico. Visitor air arrivals to the Virgin Islands have declined by about 25 percent from 1979 to 1982. A provision such as this can only serve to impede progress toward recovery of the Virgin Islands tourism industry. It is ironic, moreover, that while the Administration is willing to forgo tax revenues in order to encourage tourism in the foreign Caribbean, it is at the same time delaying commitment of federal funds for the expansion of the St. Thomas airport which is necessary to allow the Virgin Islands to compete with its island neighbors for the tourist dollar. Since the Administration has proposed that eligibility for this tax benefit be conditioned on the execution of tax exchange of information agreements between the United States and CBI beneficiary countries, we would respectfully propose that such benefits in addition be conditioned on the Administration providing satisfactory commitments for the financing and completion of the St. Thomas airport.

The Virgin Islands has consistently supported the concept of the CBI as a recognition by the U.S. Government of the importance of the Caribbean region. But clearly, the legislation implementing CBI must be structured to avoid damage to the already strained economy of the U.S. Virgin Islands, now bearing the severe impact of federal budget and tax cuts and recent industrial layoffs, together with insufficient infrastructure and limited capital resources. The proposal developed by the Virgin Islands and Puerto Rico will not only accomplish this objective but it will also provide additional benefits to the foreign countries in the region without additional federal expenditures. I strongly urge this Committee's support. Thank you.

Mr. GIBBONS. Mr. Jenkins.

Mr. JENKINS. I want to thank my colleague, Mr. de Lugo, for coming here today and I especially want to thank Mr. de Lugo for his work on behalf of his constituents in the long battle.

Too often I think when we look at the Virgin Islands, we tend to think of them in the same context as countries. So many members make that mistake. It is an honest mistake on their part. We are talking about the fact that Virgin Islands rum can come into this country duty-free.

Of course it can. It is American made rum. It is anticipated that grain from the West or coal from Georgia, my State could move about without a tariff. I would expect that your product could likewise.

Mr. de Lugo, I also want to compliment you for attempting to work out a compromise. I think you sincerely attempted to do that. As I understand it from the administration testimony today, they indicate that the Virgin Islands is not going to be hurt at all simply because the bulk rum that you send is at the low end of the price scale, 18½ rum and that the other rum producing islands in the Caribbean are a higher priced rum.

Is there any reason why you will not get competition from the lower end of the cheap rum?

Mr. DE LUGO. Absolutely not. The only thing that keeps them out of the low end of the market is the tariff. They have the additional capacity that is not being used at the present time and it would just make sense for them to move into that end of the market.

Mr. JENKINS. If the administration says that you won't be hurt because they won't be producing the cheap rum, unaged rum, then why has the administration consistently refused to place some safeguards?

Mr. DE LUGO. I cannot understand that reasoning and I think the case has been made here before this committee this morning. It was pointed out that there is no safeguard for us. The Trade Act of 1974 will not give us a recourse.

Mr. Jenkins, you asked a question about stockpiling. We are concerned about the foreign islands moving into the low end of the market that we are in at the present time. We have 11 percent of it, producing the unaged rum. We will not be able to compete with them because their wages are much lower than ours. Their costs of production are much lower than ours. They do not have to meet the U.S. Federal standards that we have to meet and they are going to start dumping it up here.

The question that you brought up about stockpiling. Let me tell you there is rum being stockpiled in this country right now. In 1982 the Virgin Islands provided less rum than Jamaica has in storage at the present time in warehouses here in the United States.

Mr. JENKINS. You mean you sent less rum than what is stockpiled?

Mr. DE LUGO. Stockpiled right here in the United States by Jamaica. You heard the Treasury Department here today testify that when this bill goes through that rum will be taken out of the warehouses and pay no duty.

Mr. JENKINS. Do you fear that they will drop it on the market at one time substantially?

Mr. DE LUGO. We certainly do.

Let me give you the figures.

From 1979 to 1982, 6.6 million proof gallons of Jamaican rum arrived in the United States. The tariff has been paid on only 2.4 million proof gallons. 4.2 million proof gallons of Jamaican rum upon which no tariff has been paid is sitting in warehouses today, waiting to flood the U.S. market the moment that the tariff is removed.

Now, to put it another way. In 1978, the tariff was paid on nearly all Jamaican rum that arrived in the United States. Very little was put in warehouses. By 1982 more than two-thirds of the Jamaican rum arriving in the United States was being put in bonded warehouses. Now, don't you think the Virgin Islands should be concerned? Don't you think that I should be here before my friends on this committee and talking to my other friends on the House floor asking for their help in protecting these United States citizens? That's my job.

Mr. JENKINS. Thank you, Mr. de Lugo. I find that very interesting.

Mr. GIBBONS. Mr. Hance.

Mr. HANCE. Thank you, Mr. Chairman.

I would say to Representative de Lugo that I don't know if I have ever seen a member of this body work harder on any issue than he has worked on this issue. It is quite obvious that you are working hard to represent your people and it is quite obvious why they are concerned.

If you include Puerto Rico and the Virgin Islands, what percentage of this market do the other CBI countries have?

Mr. DE LUGO. Well, if you put Puerto Rico and the Virgin Islands together, then the foreign producers have at the present time about 3 percent of the U.S. market.

If you take Puerto Rico out of that then we have 11 percent of it and they have 3 percent of it.

But, what was not put forward here in the administration's testimony was that they have access duty free to the Canadian and European markets that we don't have, so that they have at least that big a share of the European and Canadian markets and we are excluded from that.

Mr. HANCE. Then what you are asking us to do is to keep you on an even keel. You are not asking for an advantage?

Mr. DE LUGO. Mr. Hance, I want the CBI to work and I am in favor of helping the other islands of the Caribbean. They do not presently produce this unaged bulk rum. They claim that they don't want to produce it that they are not going to.

All I am asking is that the protection be put in there to protect that end of the market, protect my producers, protect the U.S. citizens in the Virgin Islands. That is all I am asking and then we can go on and support this CBI wholeheartedly.

Mr. HANCE. It seems very reasonable.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Are there any further questions?

If not, thank you very much. It is always a pleasure having you testify before us.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

Chairman ROSTENKOWSKI. The Chair calls Steve Koplan.

Welcome to the committee, Mr. Koplan. As always, it is a pleasure to have you join us and present the views of your great organization.

I am sure that my colleagues will be returning in a short while. However, as you know Mr. Koplan, they will be reading the record and certainly perusing your testimony. If you would like to identify yourself for the record and proceed with your testimony, you may go ahead.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. KOPLAN. Thank you, Mr. Chairman. I will not read my full statement, I will summarize it.

Mr. Chairman, the AFL–CIO appreciates this opportunity to support H.R. 2819, introduced by Representative Richard Gephardt, which has 19 cosponsors, including Representatives Stark and Matsui, as an alternative to the Reagan administration's Caribbean Basin Economic Recovery Act, H.R. 2769.

Time after time, in testimony before Congress the AFL–CIO has urged that this legislation be sent back to the drawing board for a more thoughtful plan of assistance to that area. Today, we again reject the Reagan administration proposal to use U.S. trade and tax laws in a poorly constructed quick fix plan for complex and serious problems of the region. The result can only be harm to U.S. workers and further erosion of U.S. industries with no real benefits to the working people of the Caribbean region.

We also question the advisability of lumping the Caribbean and Central American countries in one proposal, thus treating them as though their needs can all be satisfied with a single measure rather than a multifaceted program to expand the opportunities for the citizens of those countries. In many of those countries, any program for development must include land reform programs and a better means of encouraging internal self-investment.

In discussions with many Members of Congress, we have found that they share our same concerns. We believe that the Gephardt bill, H.R. 2819, restructures the administration's legislation in a way which will meet its goals and satisfy the major concerns expressed by Members of Congress, U.S. labor, and others seeking to achieve a solution to this problem.

Any legislation enacted by the Congress must have the assurance that the workers and people of each country designated for preferential treatment become the chief beneficiaries. We believe that the Gephardt bill, H.R. 2819, is an attempt to address the diverse needs of all countries that are potential beneficiaries of the U.S. program for development of their economies.

The AFL–CIO is convinced that any program for development must be based upon expanding the opportunities for the citizens of Caribbean and Central American countries, and that cannot be done merely by enabling multinational corporations to enhance their profits by using the region as a funnel for U.S. imports of duty-free manufactured products. The Gephardt alternative will still provide duty-free treatment for the region but would condition

any resultant internal growth on decent working conditions and basic human rights rather than greater exploitation of its workers through massive trade diversions.

The alternative puts multinational corporations on notice that their profits cannot be enhanced by furthering human misery by wage exploitation and degrading workplace conditions. The bill enhances opportunities for the region beyond the Reagan administration's proposal by graduating—phasing out—certain areas of the world which now receive duty-free import privileges not enjoyed by other trading nations. This provision allows the Caribbean beneficiaries to enjoy the unique privileges that have helped move other nations into being as industrial entities. These nations no longer need this special aid which should be now provided to deserving nations in the Caribbean.

It is our primary duty in any such initiative to help assure human rights and to consider and protect the existing jobs of workers of all concerned nations—including the United States—and the great need to create new job opportunities with decent workplace conditions.

Unlike the administration's bill, H.R 2967, Cuba is not listed as a country eligible for such status. This change simply conforms the administration's bill in the House to the bill reported recently by the Senate Finance Committee. There would be exceptions for import-sensitive products voted by the House of Representatives last year.

In addition, we strongly support the provision of H.R. 2819 that exempts other import-sensitive manufactured products and components of products that have never been eligible for duty-free treatment under the generalized system of preferences, such as watches, electronic articles, certain steel articles, semimanufactured, and manufactured glass products—the administration's bill fails to carry over current law statutory exemptions for such products for duty-free treatment.

We feel that any legislation should contain eligibility requirements for beneficiary status similar to those contained in H.R. 2819. For example, there are specific requirements for basic human rights; safety in the workplace and the right to organize and bargain collectively. Congress is provided with oversight responsibility to assure that no administration may treat such preconditions as mere rhetoric. In discussions with trade unionists from the Central American countries—whose total population comprises over 85 percent of the intended beneficiaries of the legislation—they felt it essential that the final version of the bill include strong preconditions for both human rights and trade union rights.

Any meaningful legislation must include a Caribbean local content provision that protects U.S. industries from assaults from multinational imports and specifically targets the benefits to the economies of the Caribbean. We strongly support the Caribbean local content provision contained in H.R. 2819 that provides 35 percent of the appraised value of the article imported from a beneficiary country to the United States to be produced in such beneficiary country.

The generalized system of preferences similarly applies a 35-percent content requirement to each of the following countries listed

in the administration's CBI bill as potential beneficiary countries: Anguilla, the Bahamas, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Surinam, Cayman Islands, Netherlands Antilles, Turks and Caicos Islands, and the British Virgin Islands. However, the administration's CBI bill, H.R. 2967, will treat all 28 beneficiary countries listed in their bill as though they are one country for purposes of determining Caribbean local content.

We believe that provision will render the United States incapable of monitoring compliance of Caribbean local content which will be determined by the governments of the CBI countries. We do not believe the United States will seek to audit the books of multinationals operating, for example, in El Salvador, Guatemala, Nicaragua, Surinam, Haiti, or the Dominican Republic—to name a few—in order to determine whether a cumulative 35 percent Caribbean local content requirement exists.

We strongly support the local content provision contained in the Gephardt alternative, which also provides that at the end of 2 years, that sum phases up. This Caribbean local content requirement, modest as it is, will assure that the people of the Caribbean Basin become the chief beneficiaries of development and expanded job opportunities created through internal market growth rather than minor assembly and sophisticated passthrough arrangements that benefit primarily absentee multinational firms.

Last year, Ambassador William Brock told the House Subcommittee on International Trade of the House Ways and Means Committee that a basis for the administration's proposal is because "there is uncertainty and fear in the Caribbean Basin about the future of the GSP program." The 98th Congress must come to grips with the future of that program since it is due to expire next year. In the meantime, in order to assure that Caribbean countries are major beneficiaries, H.R. 2819 contains a provision that certain GSP countries be graduated from duty-free treatment.

The AFL–CIO strongly supports this provision. These countries are now self-sufficient trading partners who can trade on the same terms as all other nations. Thus, the special preference that has given them a special added benefit is no longer needed. This action will provide the Caribbean Basin nations with an added opportunity to develop their trading capability.

For example, this year Taiwan, Korea, Hong Kong, Mexico, and Brazil would be graduated from the list of eligible countries for purposes of duty-free U.S. imports. Collectively, those five countries received a total share of about 64 percent of all GSP benefits in 1982. I would point out that with respect to Taiwan, Korea, and Hong Kong alone, those three countries collectively received about 50 percent of all GSP benefits in 1982.

Additional countries would be graduated beginning in 1985, in order of their use of GSP. By eventually graduating the industrialized countries that historically have monopolized the benefits derived from duty-free treatment under the generalized system of preferences, the countries of the Caribbean Basin would have an opportunity to compete for the lion's share of the benefits derived from preferential trade with the United States. By phasing in this graduation process, Congress is still afforded the opportunity to

review the GSP program and take such additional corrective measures as it deems necessary in light of past and present domestic industry conditions in the United States.

Mr. Chairman, the AFL-CIO believes that H.R. 2819 provides an alternative which is a better way to address the very real problems of the people of the Caribbean and Central American countries than what is proposed in the administration's bill.

I would ask that the full text of my statement appear in the record.

Chairman ROSTENKOWSKI. Without objection, your entire testimony will appear in the record.

[The statement of Mr. Koplan follows:]

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. Chairman, the AFL-CIO appreciates this opportunity to support H.R. 2819, introduced by Representative Richard Gephardt, which has 19 cosponsors, including Representatives Stark and Matsui, as an alternative to the Reagan Administration's "Caribbean Basin Economic Recovery Act," H.R. 2769.

Time after time, in testimony before Congress the AFL-CIO has urged that this legislation be sent back to the drawing board for a more thoughtful plan of assistance to that area. Today, we again reject the Reagan Administration proposal to use U.S. trade and tax laws in a poorly constructed quick fix plan for complex and serious problems of the region. The result can only be harm to U.S. workers and further erosion of U.S. industries with no real benefits to the working people of the Caribbean Region.

We also question the advisability of lumping the Caribbean and Central American countries in one proposal thus treating them as though their needs can all be satisfied with a single measure rather than a multifaceted program to expand the opportunities for the citizens of those countries. In many of those countries, any program for development must include land reform programs and a better means of encouraging internal self-investment.

In discussions with many members of Congress, we have found that they share our same concerns. We believe that the Gephardt bill, H.R. 2819, restructures the Administration's legislation in a way which will meet its goals and satisfy the major concerns expressed by members of Congress, U.S. labor, and others seeking to achieve a solution to this problem.

Any legislation enacted by the Congress must have the assurance that the workers and people of each country designated for preferential treatment become the chief beneficiaries. We believe that the Gephardt bill, H.R. 2819, is an attempt to address the diverse needs of all countries that are potential beneficiaries of the U.S. program for development of their economies.

The AFL-CIO is convinced that any program for development must be based upon expanding the opportunities for the citizens of Caribbean and Central American countries, and that cannot be done merely by enabling multinational corporations to enhance their profits by using the region as a funnel for U.S. imports of duty-free manufactured products. The Gephardt alternative will still provide duty-free treatment for the region but would condition any resultant internal growth on decent working conditions and basic human rights rather than greater exploitation of its workers through massive trade diversions. The alternative puts multinational corporations on notice that their profits cannot be enhanced by furthering human misery by wage exploitation and degrading workplace conditions. The bill enhances opportunities for the region beyond the Reagan Administration's proposal by "graduating"—phasing out—certain areas of the world which now receive duty-free import privileges not enjoyed by other trading nations. This provision allows the Caribbean beneficiaries to enjoy the unique privileges that have helped move other nations into being as industrial entities. These nations no longer need this special aid which should be now provided to deserving nations in the Caribbean.

It is our primary duty in any such initiative to help assure human rights and to consider and protect existing jobs of workers of all concerned nations—including the United States—and the great need to create new job opportunities with decent workplace conditions. The Gephardt alternative, H.R. 2819, is designed to correct

those glaring omissions in H.R. 2769, the Administration's proposal. For example, we cannot ignore the fact that just last December, there took place the arrest, torture and murder of at least 15 Surinam citizens for opposing the dictatorship of Desire Bouterse. This is appalling evidence of totalitarian brutality toward which that country has been moving since February of 1982. The Gephardt bill would give the Congress oversight responsibility in specified situations of the administrative process of granting a country beneficiary status.

H.R. 2819 provides 6 years duty-free status to articles from eligible beneficiary countries. We support that provision rather than the Administration's proposal of 12 years. We expect that prior to the termination date, the Congress will review the operation of the program for possible renewal. Unlike the Administration's bill, H.R. 2967, Cuba is not listed as a country eligible for such status. This change simply conforms the Administration's bill in the House to the bill reported recently by the Senate Finance Committee. There would be exceptions for import sensitive products voted by the House of Representatives last year such as textiles and apparel articles; footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not currently eligible for duty-free treatment under the Generalized System of Preferences; tuna; and petroleum products.

In addition, we strongly support the provision of H.R. 2819 that exempts other import-sensitive manufactured products and components of products that have never been eligible for duty-free treatment under the Generalized System of Preferences, such as watches, electronic articles, certain steel articles, semimanufactured and manufactured glass products—the Administration's bill fails to carry over current law statutory exemptions for such products for duty-free treatment. For example, the Japanese would not be able to use the region to ship their SEIKO watches duty-free to the United States.

In addition, we support that provision of H.R. 2819 that precludes duty-free treatment for products or parts of products that are the subject of bilateral restraints between the United States and other countries or that are the subject of bilateral restraints between the United States and other countries or that are subject to voluntary export restraints by any foreign country to the United States or that receive nonreciprocal treatment by the beneficiary country. Findings of injury under U.S. fair and unfair trade statutes will also preclude duty-free treatment. These protections will safeguards those presently endangered U.S. industries against additional injury from duty-free imports. For example, the Japanese would not be able to use the region as a funnel for duty-free U.S. imports of auto parts.

We feel that any legislation should contain eligibility requirements for beneficiary status similar to those contained in H.R. 2819. For example, there are specifc requirements for basic human rights; safety in the workplace and the right to organize and bargain collectively. Congress is provided with oversight responsibility to assure that no Administration may treat such preconditions as mere rhetoric. In discussions with trade unionists from the Central American countries—whose total population comprises over 85 percent of the intended beneficiaries of the legislation—they felt it essential that the final version of the bill include strong preconditions for both human rights and trade union rights.

In addition, the AFL-CIO supports those provisions of H.R. 2819 that carry over current law requirements contained in the General System of Preferences denying countries eligibility status if they fail to cooperate with the United States to prevent drug traffickers from using us as a market for their unlawful activities; also incorporated is the GSP prohibition against countries that aid, abet or grant sanctuary to international terrorists.

Any meaningful legislation must include a Caribbean local content provision that protects U.S. industries from assaults from multinational imports and specifically targets the benefits to the economies of the Caribbean. We strongly support the Caribbean local content provision contained in H.R. 2819 that provides 35 percent of the appraised value of the article imported from a beneficiary country to the United States be produced in such beneficiary country. The Generalized System of Preferences similarly applies a 35-percent content requirement to each of the following countries listed in the Administration's CBI bill as potential beneficiary countries: Anguilla, the Bahamas, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Surinam, Cayman Islands, Netherlands Antilles, Turks and Caicos Islands and the British Virgin Islands. However, the Administration's CBI bill, H.R. 2967, will treat all 28 beneficiary countries listed in their bill as though they are one country for purposes of determining Caribbean local content. We believe that provision will render the United States incapable of monitoring compliance of Caribbean local content which will be determined by the governments of the CBI countries. We do not believe the United States will seek to

audit the books of multinationals operating, for example, in El Salvador, Guatemala, Nicaragua, Surinam, Haiti, or the Dominican Republic—to name a few—in order to determine whether a cumulative 35-percent Caribbean local content requirement exists. We strongly support the local content provision contained in the Gephardt alternative, H.R. 2819, which also provides that at the end of two years, that sum phases up from 35 percent to 50 percent. This Caribbean local content requirement, modest as it is in H.R. 2819, will assure that the people of the Caribbean Basin become the chief beneficiaries of development and expanded job opportunites created through internal market growth rather than minor assembly and sophisticated pass through arrangements that benefit primarily absentee multinational firms.

Last year, Ambassador William Brock told the House Subcommittee on International Trade of the House Ways and Means Committee that a basis for the Administration's proposal is because "there is uncertainty and fear in the Caribbean Basin about the future of the GSP program." The 98th Congress must come to grips with the future of that program since it is due to expire next year. In the meantime, in order to assure that Caribbean countries are major beneficiaries, H.R. 2819 contains a provision that certain GSP countries be graduated from duty-free treatment. The AFL–CIO strongly supports this provision. These countries are now self-sufficient trading partners who can trade on the same terms as all other nations. Thus, the special perference that has given them a special added benefit is no longer needed. This action will provide the Caribbean Basin nations with an added opportunity to develop their trading capability. For example, this year Taiwan, Korea, Hong Kong, Mexico, and Brazil would be graduated from the list of eligible countries for purposes of duty-free U.S. imports. Collectively, those 5 countries received a total share of about 64 percent of all GSP benefits in 1982. Additional countries would be granduated beginning in 1985, in order of their use of GSP. By eventually graduating the industrialized countries that historically have monopolized the benefits derived from duty-free treatment under the Generalized System of Preferences, the countries of the Caribbean Basin would have an opportunity to compete for the lion's share of the benefits derived from preferential trade with the United States. By phasing in this graduation process, Congress is still afforded the opportunity to review the GSP program and take such additional corrective measures as it deems necessary in light of past and present domestic industry conditions in the United States. At the least, this provision will lay to rest some of the "uncertainty and fear in the Caribbean Basin" about the GSP program by graduating this year from GSP benefits the five countries that have monopolized its benefits. Graduation of those countries now from GSP will give Caribbean countries a better opportunity to advantage themselves of the U.S. market.

We also support the provision of H.R. 2819 that will carryover from GSP the competitive need limitations on preferential treatment. This means that any beneficiary country that exports to the United States in a given year a quantity of an eligible article having an appraised value in excess of an amount which bears the same ratio to $25 million as the GNP of the United States for the preceding year, as determined by the Commerce Department, bears to GNP for 1974, or has exported to the U.S. 50 percent of the value of total imports of such article during any calendar year, then such country shall not receive duty-free treatment for such article unless the President certifies certain conditions have been met.

The AFL–CIO believes that H.R. 2819 provides an alternative which is a better way to address the very real problems of the people of the Caribbean and Central American countries than what is proposed in the Administration's bill.

Chairman ROSTENKOWSKI. Mr. Koplan, we have not yet received any legislation on GSP. I frankly don't know what direction this committee would take once we have been notified of the administration proposal.

I do feel, however, that if we are going to consider any legislation in the area, I think we have to do it in the whole context of GSP. I was in Singapore 6 or 8 weeks ago and certainly there they are concerned with the kind of signal that we send out on GSP. I assume Singapore would be very concerned with whether or not they fall under the umbrella. But I just think that associating GSP with CBI is doing it piecemeal.

I was in the Caribbean and was, as I told you personally, somewhat surprised at the enthusiasm that was displayed by the labor elements of the Caribbean nations.

With regard to the arguments for stricter criteria on labor standards and human rights, I think it is significant that in a recent radio program in Barbados, Burns Bonadie, the Secretary-General of the Caribbean Basin Labor Conference, took issue with claims that the Caribbean labor force feels they would be exploited by CBI.

In fact, I understand the group strongly supports this legislation and differs with the objections raised by you and the movement that you represent. It seems to me that one truly good method of improving labor standards is to improve the economic conditions generally and expand opportunities for the people in those countries.

I don't think we can expect these countries to have unusually high wage rates and strict workplace requirements when, as was evidenced to those of us who visited the region, they are largely destitute and impoverished.

I feel that maybe this is putting the cart before the horse.

People in the Caribbean Basin area gave every one of us the impression that they are great friends of ours; not satellite nations, but our outward perimeter in that area. I know that you and your associates feel there are some things that we could do to improve this initiative along the lines of the bill introduced by my colleague, Mr. Gephardt, from Missouri. But there is a disagreement as to whether or not that bill is an improvement.

However, I imagine the committee hopes that if negotiations were to take place, labor is not in cement on all the elements of the Gaphardt bill but is instead willing to negotiate. That is usually the custom, is it not?

Mr. KOPLAN. I would hope so, Mr. Chairman. We are not in cement and labor is willing to sit down at the table and to discuss possible changes that we would hope would address our major concerns. I would hope that that could be worked out.

We think that the Gephardt bill is a vehicle for that and we could start with that.

I would like to respond with regard to your comments on both GSP and Mr. Bonadie if I could.

First with regard to GSP there are over 140 countries that now receive GSP. Included in that list is every country listed in the administration's CBI bill as a potential beneficiary country with the exception of Cuba.

Three countries, Taiwan, Korea, and Hong Kong alone monopolize half of the total benefits. We feel with regard to GSP that some form of country graduation has got to benefit the people of the Caribbean. I don't think you would find them opposed to graduating countries like that, any of them. And at the same time, this would still allow this committee to take up the whole question of GSP.

With regard to Mr. Bonadie who shortly after we did our radio show left his position in the trade union movement and took a position in the Government of St. Vincent. He is now a Senator there. But as I indicated at the beginning of my testimony the problems

of the English speaking Caribbean countries and the problems of the Central American countries are not quite the same.

Last February I met, in Florida, not only with Mr. Bonadie and the trade unions from the English speaking countries, but with representatives from the Central American countries. The person representing the Central Americans, the Secretary-General of the workers of Central America is Claudio Artavia Artavia.

I would point out that the population of those Central American countries, for example Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama adds up to 20 million people and if you add Haiti to that you are up over 33 million. With the exception of Haiti, all the other countries were represented at the meeting. The English speaking nations add up to a little over 5 million people.

So the impact that this legislation is going to have, the main thrust of it in the Caribbean will be and is directed at the people in Central America.

The general feeling and the general consensus that came from the people from Central America was that they would like to see in the final version of any legislation worked out in this committee, strong requirements for human rights and labor protections and for more of the product being made in their countries.

I would point out while I was sitting here about to testify, I had with me the hearings from 1975 on GSP and I noticed that at that time, for example, the people in Haiti were making $1.60 a day.

Last year when we were testifying, they were making $1.66 a day in that country so that is an example of the total lack of progress since 1975 in that country. So we feel very strongly that the final version of this legislation have requirements that have teeth in them. There really are no protections in the administration's legislation that prevent designation of a country even if decent conditions do not exist.

Also, I would comment on the content requirement and say that in existing law there is a provision that does allow for some combining of countries. It is called the Caricom, but the Caricom does not allow all of the countries listed in the CBI bill to be treated as one bill for the purposes of satisfying a content requirement.

The total number in terms of population of the countries listed in the Caricom is about 5 million. H.R. 2769 would take us up, exclusive of Cuba, close to 40 million total population that would be treated as one country.

And as I mentioned in my testimony, I don't know how we monitor whether 3 percent comes from El Salvador or 7 percent from Guatemala, how we trace that on through to see if a content requirement has been satisfied.

We feel very strongly that this provision in the administration's legislation needs to be tightened up.

Mr. GIBBONS [presiding]. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman, and thank you, Mr. Koplan. I know from long experience of your great concern and good work on behalf of American workers who may be affected by legislation of this kind.

This morning I expressed my concerns to Ambassador Eagleburger about the possible impact on American workers and he as-

sured me that the legislation supported by the administration already contains sufficient safeguards.

Do you agree with him on that?

Mr. KOPLAN. No; there is nothing mandatory. There is no congressional oversight provided in the administration's legislation.

With regard to the provision, for example, where I think the language in H.R. 2769 is "reasonable workplace conditions and the right to organize and bargain collectively." That is put into a part of the bill that has nine other criteria in it. That is what I call the second tier of criteria and in that tier all it says is that the President "shall take into account" period.

So, there is nothing that requires how that encourages countries to grant their people human rights. Of course it does not relate to human rights at all, but how that encourages people in the governments and the countries of, for example, of Central America, to suddenly start granting safe workplace conditions and the right to organize and bargain collectively.

I mean in this situation unless the Congress in the legislation is involved in this process, it is not going to work.

Mr. PEASE. What about items such as steel? If it were feasible for an American company or German company or whatever to build a small package steel plant in Barbados or something of that sort, what would be the difference in treatment, if you know, under the current law and under CBI's proposal?

Mr. KOPLAN. I am glad you asked that question. Under current law ever since the generalized system of preferences was put into effect, there were statutorily excluded items that were exempted as import-sensitive. Steel is one of them. Watches, glass, and electronics are others that were specifically named. There were several others, for example, footwear and textiles, that were exempted last year in the CBI legislation.

But we feel very strongly that with regard to each of these four categories there is no reason to suddenlty lift the statutory exemption that has been in the law since 1974 and enable multinationals to suddenly funnel through the Caribbean products of this nature. I would say to you, for example, in March 1983 in the category of watches, clocks, and watch cases my information is that there were in this country 17,200 workers.

Steel, since July 1981 to May 1983, the employed steelworkers; that total has dropped from 1,134,000 to 837,000.

In the category of glass products, in July 1981 there were 642,000 workers. It is now 571,000. And in electronics in that same period about 100,000 jobs lost. So these areas are areas of deep concern to us and we see no reason why the statutory exemption that has been in the law and is still in the GSP should be lifted for purposes of CBI.

For example, I would point out that I think in the glass area, the No. 2 producer where the input would be coming from would be the Soviets. So we would like to see that GSP provision included in CBI and there is language in the Gephardt bill that would carry over those four exemptions that are now in the law under GSP.

Mr. PEASE. Thank you very much.

Mr. GIBBONS. Thank you, Mr. Koplan.

Our next witness is Mr. Robert McNeill, representing the Emergency Committee for American Trade, and he will be accompanied on this panel by Peter Johnson of the Caribbean/Central American Action Organization.

We are glad to have you here, and you may proceed.

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. McNEILL. Thank you, Mr. Chairman. I have submitted a brief statement for the record.

It will be included in its entirety in the record.

I would very briefly like to summarize it both in the interest of letting you get out of here and myself also and others.

Mr. GIBBONS. All right.

Mr. McNEILL. The 63 members of ECAT support very strongly the Caribbean Basin Economic Recovery Act, H.R. 2769. We believe that enactment will help offset the disadvantages of the Caribbean region's small domestic markets to a diversified economic market. We believe that the stimulus that duty-free access will provide will stimulate trade between the United States and the Caribbean nations, thereby creating employment and enhanced economic stability.

We believe that any economic distress that may be caused in the United States attributable to duty-free access can be alleviated through provisions of the legislation extending import safeguard statutes to the products concerned.

We believe that extending the convention tax deduction to the countries in the Caribbean will benefit the Caribbean tourist industries.

The members of ECAT would like to see an amendment included in the bill. Specifically we would like to see as strong a provision as possible on the protection of intellectual property rights of U.S. nationals, including rights under copyright of book authors and publishers. We believe that when the President considers whether to designate any Caribbean company a CBI beneficiary a factor to be taken into account should be whether its protection of copyright and other intellectual copyrights is adequate and effective.

We raised the issue with the administration with whom we have worked out draft language for consideration by the Ways and Means Committee. I would be delighted to provide a copy for the record. Just where the draft language would be placed in the statute has yet to be decided.

Thank you, Mr. Chairman.

[The statement of Mr. McNeill follows:]

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

SUMMARY

1. The 63 members of the Emergency Committee for American Trade support the proposed "Caribbean Basin Economic Recovery Act."

2. They believe that its twelve-year grant of limited duty-free access to the United States market will help offset the disadvantages of the Caribbean region's small domestic markets to efficient and diversified economic production.

3. They believe that the economic stimulus that duty-free access will provide will stimulate trade between the United States and Caribbean nations, thereby creating employment and enhanced economic stability.

4. They believe that any economic distress that may be caused in the United States attributable to duty-free access can be alleviated through provisions of the legislation extending import safeguard statutes to the products concerned.

5. They believe that extending the convention tax deduction to countries of the Caribbean will be of great benefit to the Caribbean tourist industries.

6. They believe that the bill should be amended to allow the President to take into account when determining whether to designate any Caribbean country a CBI beneficiary whether that country provides adequate and effective protection for copyrights, including rights under copyright of book authors and publishers, and other intellectual property rights of U.S. nationals.

STATEMENT

Mr. Chairman, thank you for this opportunity to express the support of the Emergency Committee for American Trade (ECAT) for the Caribbean Basin Economic Recovery Act. We believe that enactment of this legislation would advance the economic interests of the Caribbean nations and would enhance the image and security interests of the United States in the Caribbean region.

The 63 members of ECAT are large United States firms with substantial overseas business interests. The 1981 worldwide sales of ECAT member companies totaled over $700 billion. In the same year, they employed over five million workers. While very little of their business is done in Caribbean nations, ECAT members nevertheless feel it important that the United States' role in the region be an understanding and a constructive one. The Caribbean has long been an area of strategic importance to the United States. A substantial portion of our international trade is shipped through either the Panama Canal or the Gulf of Mexico, including the bulk of our oil imports and a good portion of our strategic minerals. It is most important, therefore, that the United States maintain sound and friendly relations with our Caribbean neighbors.

The centerpiece of the Caribbean Basin Initiative is the proposed twelve-year grant of duty-free access to the United States market for a wide variety of items produced in the Caribbean nations. We support this for a number of reasons. Among them is our recognition that continued economic stagnation is likely to remain the rule unless real economic stimulus is provided the myriad economies of our regional neighbors. Duty-free access to our market is an innovative step that can provide the stimulus that hopefully will lead to sustained economic growth.

The Committee has heard from other witnesses of the economic distress of the countries in the Caribbean. Unemployment rates are staggeringly high. Balance of payments problems are severe. The economic future appears exceedingly bleak. Such conditions are the virus of discontent and provide fertile ground for mass revolt against what are largely representative democracies throughout the region.

Economic depression also encourages emigration from the region to the United States, which adds to the transfer payment problem from the Federal, State, and municipal governments to those who are in need of economic sustenance. Indeed, it has been estimated that nearly 20 percent of all those living and born in the Caribbean are resident in the United States.

Opening the U.S. market to Caribbean producers will substantially alleviate the economic disincentive to efficient production caused by the small markets of each of the Caribbean nations. Preferred access to our market should encourage both foreign and domestic direct investment in productive facilities that will create jobs and also enhance domestic, social and political stability. This is obviously to be desired.

Such economic activity will be of benefit to the U.S. economy. U.S. exports to the region will increase. Excluding petroleum trade, the United States currently runs an approximate $2 billion surplus in trade with Caribbean nations.

Just as U.S. exports to the region could be expected to increase by enactment of the CBI legislation, so too will imports from the region. We are the natural market for Caribbean exports, which totaled just about $8 billion to the United States in 1982. U.S. imports from the Caribbean are less than 4 percent of total U.S. imports. If petroleum imports are excluded, then the percentage drops below 2 percent.

Of our roughly $8 billion in 1982 imports from the Caribbean, about $2.4 billion entered duty-free under either MFN or GSP-free rates. The duty-free access that would be covered by the CBI bill would add another $627 million to the duty-free rolls. This amount—$627 million—constitutes only about 0.25 percent of estimated 1982 imports.

We understand that some domestic workers and producers are concerned that the duty-free access that is proposed could lead to economic distress. This is a most legitimate concern. We are, therefore, pleased that the proposed legislation provides that the import safeguard provisions of domestic law shall be available, particularly Sections 201–203 of the Trade Act of 1974.

We, in ECAT, also welcome provisions of the legislation granting to Caribbean nations the same tax treatment as afforded Canada, Mexico, and Jamaica concerning the tax deductions for conventions. This seems particularly appropriate since tourism is an important source of income to the nations concerned.

The members of ECAT would also like to see in the bill as strong a provision as possible on the protection of intellectual property rights of U.S. nationals, including rights under copyright of book authors and publishers. We believe that when the President considers whether to designate any Caribbean country a CBI beneficiary a factor to be taken into account should be whether its protection of copyright and other intellectual property rights is adequate and effective. We have raised the issue with the Administration, with whom we have worked out draft language. I would be pleased to provide a copy for the record.

In short, Mr. Chairman, the proposed "Caribbean Basin Economic Recovery Act" makes a lot of practical economic and political sense. It will assist the economic recovery and increase the diversification of the economies of a large number of our friends in the Caribbean through the stimulation of the private sector and private enterprise, which is the best possible engine for economic growth. The U.S. economy will also benefit through increased exports and investment. Growing economies benefit all. On that basis alone, we recommend your support of this legislation.

Again, thank you for this opportunity to appear before you.

Mr. GIBBONS. Mr. Johnson.

STATEMENT OF PETER B. JOHNSON, EXECUTIVE DIRECTOR, CARIBBEAN/CENTRAL AMERICAN ACTION

Mr. JOHNSON. Thank you for the opportunity. My testimony is also submitted for the record.

Just to summarize and make a couple of additional points, our organization is a nonprofit organization supported by some 70 American firms, most of them very active in the basin and very interested in its political and economic development. We have testified several times on the CBI before this committee last year, and we supported the CBI legislation since its beginning. I would rather not repeat any of that here since it has been covered by witnesses prior to myself, and following, but to focus very narrowly for a couple of moments on the vital issue of jobs, both in the Caribbean Basin, where the bill is focused, but also in the United States, where it is coming under some criticism—in my view, unjustly and superficially.

I certainly can understand the U.S. labor movement taking a stand against this bill given the unacceptably high unemployment rates that currently exist in the United States. What we have tried to do is look at as many diverse situations as we could to determine the validity of this thesis, and, in that light, asked Harry Lamar, formerly of your staff, to take a look at the economics of the issue. That particular study is attached to my testimony and available to all of you and others.

The kinds of situations that we encountered as we surveyed a number of American firms operating in the Caribbean Basin led us to understand better the several different categories of job creation activity and reasons why jobs, in fact, would be created both in the United States and in the Caribbean Basin as a consequence of this legislation. And I would like just to tick off, Mr. Chairman, four or five of those categories.

The first is that the United States exports some $6 billion yearly—in 1981 figures—to the Caribbean Basin countries. This, against dutiable imports amounting to about one-tenth of that figure. Obviously, the Caribbean Basin economies must remain healthy if that export level is to be maintained, and thereby maintain those jobs that exist in the United States from those exports.

The second point I would like to make, Mr. Chairman, is that the CBI will create a marginal investment advantage for the Caribbean over the Far East. U.S. operations in the Far East involve a relatively higher percentage of Far Eastern inputs and that percentage is increasing in terms of raw material, machinery parts, and technology.

Products now entering the United States from the Caribbean Basin, which presumably would be stimulated further under the CBI, involve some 65 percent of U.S. content. The Far East is running 50 percent or less and, as I suggested, decreasing.

I think a good example of this phenomena is the MacGregor sporting goods operation in Haiti which currently, along with other firms, is manufacturing baseballs and sporting goods and things of that nature, using some 30 million dollars' worth of U.S.-produced tanned leather per year. If such operations were to move to the Far East, as some of these companies are considering, that tanned leather would not come from the United States but would come from the Far East.

Another point for encouraging the Caribbean production is to save U.S. jobs threatened by foreign competition. Companies in the United States faced with that threat fundamentally have two choices when dealing with drastically lower priced imports from the Far East. They can go out of business or they can adopt some kind of a production sharing system with an offshore manufacturing site. Clearly, the Caribbean Basin is an ideal location for this kind of a site for obvious reasons, including, in many cases, language, logistical, administrative, communications, management, and friendly governments.

I would give you another example of that particular instance. There is a small electronics company in Pennsylvania called Transducer Systems. The president of that company told me the other day that the 110 jobs that he has created in his offshore operation in St. Kitts provides some 50 or 60 jobs in Pennsylvania that he otherwise would not be able to maintain. Those jobs in Pennsylvania provide the research, the development work, the marketing and so on for that basic production sharing operation in St. Kitts.

Another point, Mr. Chairman, the CBI will further create jobs in the United States by stimulating production operations that are currently not in competition with U.S. products. This is largely in the agricultural area.

I. S. Joseph, out of Minneapolis, is seeking to produce other crops in Central America, which are either off season with respect to U.S. production or simply not produced in the United States. Hanover Brands, another agribusiness firm in Pennsylvania, has 300 jobs in Pennsylvania which work an end process operation for vegetables and products of that nature which are grown through its Central American subsidiary. That particular one is most interest-

ing because they specialize in contracting from some 2,000 to 3,000 small farmers which otherwise would not have work.

Hershey Foods is another one in the same category.

Finally, Mr. Chairman, as these economies begin to pick up through stimulation by CBI, the demand for U.S. consumer products and capital goods will obviously grow, creating more jobs in the United States across the board. Currently, the ability to pay is a major constraint on purchases of U.S. goods by the Caribbean Basin countries. CBI would stimulate the development of that purchasing power and would enable the Caribbean to become an increasingly reliable market for U.S. goods.

I might add that nowhere in the world is that demand and that purchasing power more expected to channel itself toward the U.S. supplier than it is from the Caribbean Basin. We have nothing against the Far East or production in the Far East. As a leading Prime Minister in the Caribbean noted last December at a conference that we sponsored in Miami, if 1 percent of U.S. imports from the Far East were to come from the Caribbean Basin, that would provide enough jobs for the entire Caribbean Basin work force. That is a comment that Eugenia Charles of Dominica made at this particular conference.

I guess I would end up saying that this is simply not a zero sum situation. Everyone in the Caribbean Basin countries and the United States can be winners if the CBI goes through this committee and the remainder of the legislative process without further exclusions.

We in the American business community are concerned about it and hope that this bill receives your recommendation as currently designed.

[The prepared statement and attachment follow:]

STATEMENT OF PETER B. JOHNSON, EXECUTIVE DIRECTOR, CARIBBEAN/CENTRAL AMERICAN ACTION

Mr. Chairman, members of the Committee, my name is Peter Johnson and I represent a non-profit organization here in Washington called Caribbean/Central American Action. C/CAA was formed four years ago to promote economic development in the Carribean Basin by mobilizing resources from the U.S. private sector and encouraging positive policies on the part of our government. We are funded primarily by contributions from U.S. firms concerned about the region's future. We work closely with the business organizations and governments of the region to help these countries strengthen their own private-sector institutions and attract appropriate investment and trade proposals from U.S. firms.

As many of you know from our conversations over the past year, C/CAA has been a strong supporter to the Carribean Basin Initiative, and has been urging passage of this legislation since the time it was first proposed by the President.

Last year this Committee considered the CBI legislation at length, and fashioned a revised version of the bill which subsequently—under your leadership, Mr. Chairman—passed the full House by an overwhelming margin and was later adopted by the Administration when the CBI proposal was reintroduced into the current session. Since the bill now before this Committee, Mr. Chairman, is in fact the Committee's own bill, and comes recommended by the same merits the Committee found compelling less than a year ago, I fear I would be preaching to the choir by re-stating here the basic brief for the CBI.

Suffice it to say that economic development in the Carribean Basin not only serves the U.S. economic interest by providing expanding export markets and business opportunities, but it serves one of our nation's most vital security interests—having friendly, healthy, stable societies on our borders. The achievement of economic progress is so central to the region's political health and foreign policy options, and the economic situation many of the countries now confront so precarious,

that we cannot avoid the conclusion that that vital national asset—having friendly, healthy, stable societies on our borders—is in jeopardy. Unless we act with the degree of urgency the situation warrants, it could be lost.

I think it is important to set this basic context before us again before closing in on the narrower issues that still remain in the CBI debate. It is critical that we all remember that we are not talking about something that would be kind of nice to do, all things being equal. We are talking about the need to protect a vital national interest in a situation with a very short time fuse—one in which not only the credibility of the U.S. Government but the future of numerous friendly, democratic governments and leaders in the region are at stake. We cannot afford to dismiss those expectations or jeopardize those interests lightly.

THE CBI WILL SAVE AND CREATE AMERICAN JOBS

Having said that, Mr. Chairman, I wish to focus my remaining testimony on the specific question that is before this Committee—whether to pass the bill intact in the form in which the House passed it last session, or to entertain the possibility of further compromises that would further limit the impact of the CBI once enacted.

We are talking about two kinds of impact—the positive impact the bill is designed to achieve in the region, and the adverse impact some fear may occur as a result of it within the United States. Certainly there would be no interest on this Committee in diluting the intended benefits of the CBI in the region if it were demonstrated that there would be no adverse consequences in the U.S. economy. Conversely, however, the Committee may be disposed to entertain further exclusions proposed by U.S. interests that rightly or wrongly feel threatened, if the change did not appear to be broad enough to seriously diminish the impact of the bill in the region. The danger is that the very areas of industrial opportunity that are absolutely critical to the hopes the region has for the CBI might be the ones cut off in response to domestic fears that in fact have no basis.

Permit me to focus directly on the issue I think is foremost in many of our minds: Jobs. Will the bill as written cost U.S. jobs? Will the bill, if amended with further exclusions, carry substantially less promise of creating jobs in the Caribbean Basin?

The answer to the first question is "no." The answer to the second question is "yes." The bill as written will not cost U.S. jobs. But excluding key classifications—I am thinking particularly of electronics—will so foreclose the very areas where the region is hoping to create new jobs that the CBI would be effectively gutted. Certainly its credibility in the region, and the foreign policy benefits the United States might have hoped to derive from it, would be seriously undermined.

It is not difficult to see that if, out of concern for U.S. repercussions, we were to go through the bill and gradually remove all product categories that are presently dutiable and for which substantial growth in exports to the U.S. would be expected as a result of the bill's free trade area provisions, there would be nothing left in the skeleton to serve any purpose.

But the kind of concerns that militate in that direction are all tied up in the assumption that a substantial increase in Caribbean exports of a product to the U.S. under the CBI must automatically mean an equivalent number of American jobs lost. This is simply not the case.

The issue on product exclusions is not which American jobs to save, which to sacrifice, how many can we afford to lose—a loss-cutting operation. The fact that has to be grasped—the issue at the heart of understanding the need for this legislation—is that the CBI will mean more U.S. jobs. It will save American jobs that would otherwise be lost. It will create American jobs that would otherwise not exist. And the jobs it would create in the Caribbean would not come from jobs that presently exist or could otherwise have existed here.

The jobs the CBI will create in the Caribbean will come from new expansion in growth industries where the jobs today do not exist anywhere because they depend on tomorrow's market and tomorrow's technology—which will require new production that would not, in any event, take place in the United States. And they will come from stimulating a marginal shift in current production from highly developed production centers in the Far East to those in the Caribbean just getting started.

There are at least six reasons why this will save and create American jobs. I would like to touch briefly on each of these.

First, it will save the thousands of American jobs that depend directly on the health of Caribbean Basin economies, and would be in jeopardy if—as a consequence of our failure to respond to the current crisis—those economies fail. These are by no means insignificant numbers of jobs. The U.S. exports over $6 billion worth of goods and services to the Caribbean Basin. This is ten times the value of present imports

of Caribbean products that are now dutiable and would be duty-free under the CBI. In addition to the U.S. jobs that depend on the Caribbean's ability to purchase the end product, one must also consider the jobs in U.S. industries that depend on import of Caribbean raw materials—for instance, agricultural products and strategic minerals. These jobs, too, would be in jeopardy if Caribbean economies collapsed or economic failure precipitated political upheaval there.

Second, encouraging Caribbean production under the CBI will save American jobs in industries now threatened by foreign competition. Certain types of labor-intensive handwork cannot be performed in the United States competitively in today's world market. U.S companies being undersold by imports, primarily from the Far East, have two choices. They can go out of the business of making that product altogether, or they can establish an off-shore operation for the labor-intensive handwork that permits them to retain the remainder of the production jobs in the United States. The Caribbean Basin is an ideal site for these production-sharing operations, other factors being equal, because it is nearby for purposes of shipping and executive travel, it covers the same time zones as the United States, and in many cases there is no language barrier.

Third, as these production-sharing off-shore operations grow, they actually create new U.S. jobs in the very industries they represent. Let me cite just two examples in the electronics field. GTE has been in Haiti for 10 years, at first producing one product and now producing nine. This in turn has expanded U.S. production, while at the same time the cost savings at the production level are plowed back into U.S. operations such as engineering, technology, research and sales. Transducer Systems, Inc., a Pennsylvania firm that manufactures computer components, has been in St. Kitts seven years, and does 80 per cent of its manufacturing there. But the 110 jobs in St. Kitts permit the firm to employ some 50 people at its U.S. plant. Because the engineering, technology, machine design, and more sophisticated production tasks can only be done in the United States, any expansion in the St. Kitts operation would bring a proportionate increase in the Pennsylvania work force. Officials of both GTE and Transducer state that without their Caribbean operations the alternative essentially would be to go out of business.

Fourth, the CBI will create American jobs by stimulating Caribbean operations that are not in competition with U.S. products but require further processing in the United States. Several examples of this can be seen in the food industry. I. S. Joseph's Costa Rica operation involves production of crops not produced in the United States, or produced in a different season, thus leading to distribution jobs without displacing any in the agricultural sector. Hanover Brands has created 300 jobs in its Pennsylvania plant re-packaging for the U.S. market the Guatemala vegetables initially processed by its Guatemala subsidiary. The production itself is not something the company could transfer to the Unites States because the vegetables are supplied by over 2,000 small farmers with which the firm has contracted. Hershey Foods is another company whose overseas operations involve acquiring products not available in the United States and ultimately creating significant numbers of production jobs in the United States for its sophisticated processing operations. A Miami food processing firm, Geyco International, explains that the kind of Caribbean investments it would explore under the CBI would involve not only the use of Caribbean agricultural raw materials, but the export of U.S. raw materials and technology to the region, as well as more U.S. jobs on the distribution end.

Fifth, by creating a marginal advantage for the Caribbean over the Far East as a co-production site, the CBI will both save and create American jobs because of the substantially greater proportion of U.S. inputs involved. Because of distance, traditional supply patterns, and aggressive trading practices of Japan and the newly industrialized Asian nations, a high proportion of inputs to Far Eastern operations originate in that region. This includes raw materials, machinery and parts, as well as technology. This pattern can be seen already in goods presently manufactured under U.S. Tariff Items 806/807, which permit duty-free entry of the proportion of a foreign item representing the value of U.S. components. Goods now entering from the Caribbean Basin under this provision average 65 percent U.S. content, as contrasted with 50 percent for the developing countries generally, 47 percent for Singapore as a Far Eastern example, and 27 percent for industrialized countries.

A good example of the importance of the difference and its impact on the U.S. economy can be seen in the baseball manufacturing of MacGregor Athletic Products. To make baseballs at their Haitian plants, MacGregor and other American firms purchase $30 million U.S. tanned leather every year. If the operation were moved to Taiwan—something the company is exploring because currently the product is dutiable out of Haiti but not Taiwan—all the leather would be acquired from Far Eastern sources. Similarly, the baseball caps MacGregor makes in Haiti with

$2-3 million worth of U.S. materials would otherwise be imported from Korea with Korean materials.

The trend for use of Asian materials in Asian manufacturing not only exists but is increasing. This is not only a result of the inherent cost of transporting U.S. inputs halfway around the world. It is also a result of the highly competitive trade practices by other industrialized countries, primarily Japan. As more of the manufacturing operations with which U.S. firms have contracted are acquired by major Asian trading companies, more are insisting that they supply the materials and equipment. At least one major U.S. textile firm is now exploring opening over a dozen facilities in the Caribbean Basin under its own control precisely to save thousands of jobs in the U.S. industry that produces the raw material its current Far Eastern contractors no longer want to use.

A shift from the Far East to the Caribbean will not only save and create jobs in the U.S. mainland but will have a particularly beneficial effect on Puerto Rico. Qume, a computer company based in San Jose, California, decided to try a Caribbean twin plant operation, with production split between Haiti and Puerto Rico. The 100 new jobs created in Haiti not only saved jobs in California but also helped to preserve 1500 jobs in Puerto Rico. This can be seen in contrast to the 1800 jobs that Atari recently moved from California to Hong Kong. An electronics industry executive has estimated that as many as 900 of those jobs could have been retained in the U.S. if the firm had opted for Caribbean co-production.

Sixth and finally, stimulation of economic development in the Caribbean Basin through the CBI will not only save and create jobs in the specific industries affected, but will create jobs across the board in the U.S. economy as demand for American products and the purchasing power to buy them increases in the region. The United States traditionally has supplied the overwhelming majority of Caribbean purchases for new manufacturing equipment and supplies. The United States is the prime source for Caribbean foodstuff purchases, as well as manufactured consumer goods. Because the balance of trade between the United States and the region, excluding petroleum goods, favors U.S. exports, in a sense every dollar the region earns from selling to the United States ultimately finds its way back into the pockets of the American businessman and worker.

Currently, effective Caribbean demand for U.S. products is limited only by ability to pay. As genuine economic development through the private sector builds up this purchasing power on a steady, growing basis, the countries of the region will become more and more important as a major, reliable market for U.S. goods. The currently ineffective demand of the developing world is the major untapped potential market for the industrialized countries. Nowhere in the world is that demand more certain to channel itself toward the U.S. supplier than in the Caribbean Basin.

A VITAL DEVELOPMENT FOR THE REGION

I hope these examples, which are just the tip of the iceberg, will bear out my point that the CBI will save and create American jobs. But that, of course, is not the reason for the CBI. The CBI is designed to create jobs, business opportunities, and purchasing power in the Caribbean Basin.

I would therefore like to close by underscoring the importance of the CBI to that goal.

It may seem that if little or no displacement of U.S. jobs is foreseeable, then the gain by the region must be equivalently minimal. But this is not true. The region will gain both from the net new jobs in growth industries where the jobs did not exist anywhere before, and it will gain from a shift in new and existing jobs from the Far East.

In many respects the CBI trade benefits must be seen not as an incentive to U.S. firms to manufacture in or purchase from the Caribbean as opposed to domestically but as an incentive directed toward those firms already so disposed in order to influence the geographic direction of their choice. The CBI will make it marginally more attractive—all other things being equal, or in fact often favoring the Caribbean already—for a company to choose the Caribbean rather than the Far East.

As I have just shown, this policy could well have been undertaken for domestic economic reasons. But the foreign policy reason—the real reason—is no less compelling.

The United States has nothing against the countries of the Far East, or their citizens in business or labor. But a shift so small it would scarcely be noticed in the Asian economics could make the difference between survival and collapse in the Caribbean.

At C/CAA's most recent Miami Conference last December, Prime Minister Eugenia Charles of Dominica stated that even one percent of U.S. imports from the Far East would provide enough jobs for the entire Caribbean workforce.

Moreover, the type of operations likely to move to the Caribbean are the very ones most suited to the region's demography and culture. As one electronics executive explained, the huge firm wanting a plant with 3,000 people is not going to locate it in the Caribbean. What you would find instead are a large number of small to medium-sized operations employing one to three hundred people. By encouraging this type of investment, the United States will help the countries attract the most appropriate investors with operations most suited for their economies and lifestyles, and will at the same time help the smaller U.S. firm survive and be competitive in a world of giants.

Because of the enormous differences in size between the United States and Caribbean economies, a barely noticeable impact here would mean a sea-change there. In a recent analysis (copy enclosed) we commissioned from Harry Lamar, with whose work and expertise you are all familiar, it was shown that if the CBI were to lead to a doubling of U.S. imports from the Caribbean in those categories affected—that is, the $1.18 billion worth of goods, including currently GSP-eligible goods, that would be duty free under the CBI—such imports would still be less than one percent of all U.S. imports. But from the Caribbean perspective the change would represent a 14 percent increase in exports to the United States. The stimulative effect of such an expansion on these economies would be substantial.

It is essential that the CBI not only be enacted but that it be enacted with the inclusion of the most promising industry areas intact. Electronics and electronic components, computer parts, toys, sporting goods, food processing, textile goods not covered by the MFA exclusion—all the areas with a high element of labor-intensive handwork or assembly—offer tremendous promise to the nations of the Caribbean. These are industries where low start-up costs, low levels of required prior training, and guaranteed markets make it possible to create large numbers of jobs quickly.

The Caribbean Congress of Labour recognizes this and has therefore strongly urged passage of the CBI. It is worth noting in passing that the labor movement in the region, particularly in the English-speaking islands, is strong and well established, both industrially and politically. It is entirely capable of defending the rights of workers in the region to a fair wage and suitable workplace. All it needs to grow stronger is more jobs. This legislation can provide them.

Nothing else we could do for Caribbean economies in the short term could have a more dramatic impact in boosting their foreign exchange, distributing new income broadly through the population, rekindling hopes in the future, or building confidence in democratic governments and in the friendship of the United States.

We are not playing a zero-sum game between the needs of the U.S. workforce and the needs of the region. We are confronting the best of all zero-sum situations—the winners are everyone and the losers are zero.

I trust, Mr. Chairman, this Committee will act quickly to take this simple step to approve intact this legislation that so strongly serves both the economic, security, and foreign policy interests of the United States and the urgent, legitimate economic development needs of our Caribbean neighbors.

Thank you.

Trade and Employment Effects of the CBI

by

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EXECUTIVE SUMMARY

Analysis of the existing pattern of trade of Caribbean Basin Countries indicates that fears for future job opportunities as a result of the free trade area are illfounded.

Even if U.S. imports affected by the CBI free trade area ($1.2 billion in 1982) were to double, such imports would still be less than one percent of total U.S. imports. However, such an increase would represent a 14 percent increase in Caribbean Basin exports to the United States, and a substantial stimulus to Caribbean economic growth.

Increased Caribbean exports to the U.S. are likely to result in increased U.S. exports to the Caribbean Basin Countries, which have large unmet demands for capital equipment, most of which they import from the United States. U.S. jobs generated by such increased U.S. exports would offset the small number of jobs, if any, lost by displacement by new imports from the region under the free trade area.

Any assessment of the impact of the CBI free trade area should also take into account the nature of U.S. - Caribbean Basin trade. For example, of the $627 million in dutiable imports to be subject to the CBI free trade area, $309 million represent articles imported after offshore assembly from U.S. materials and components. The production sharing operations these imports represent are the kind of trade development operations that the CBI legislation will encourage. Such production sharing operations will minimize U.S. job losses from direct foreign imports and increase U.S. exports to expanded Caribbean Basin markets.

The potential for export growth also lies in products not currently produced in the Caribbean Countries. The growth potential is indicated to some extent by the high per capita export levels of Far Eastern countries like Malaysia, Singapore and Hong Kong, which also have significant U.S. production sharing operations. If the CBI enables Caribbean Countries to capture a small share of U.S. sales and production sharing markets now held by East Asian countries, it will have an enormous positive impact on the Caribbean economies, a minimal negative impact on the East Asian economies, and no impact at all on the U.S. economy - other than the positive one of increasing the percentage of U.S. components likely to be found in each product.

To the extent that the potential of the CBI free trade area can stimulate both U.S. investment and local efforts to attract that investment, the mutual benefits for the Caribbean Basin and the United States can be realized, without loss of job opportunities in the United States.

EXAMINING THE EMPLOYMENT EFFECTS OF THE CBI

In terms of sound economic and political policy, "doing something" about the Caribbean Basin arouses few objections. Even the one-way free trade area proposal as a serious departure from the basic U.S. trading principle of non-discrimination is supported in light of the undeniable economic development needs of the Caribbean. The principal objection to the legislation proposal is the negative impact the duty free imports might have on U.S. employment opportunities.

As presently proposed in S. 544, the Caribbean Basin Economic Recovery Act would permit imports from beneficiary countries to enter the United States free of duty except for petroleum and petroleum products, textiles and apparel, footwear and certain other leather goods, and canned tuna. The amount of trade these countries now generate and the proportion of their exports affected by the proposed free trade area poses no threat to U.S. employment opportunities.

An examination of the existing pattern of trade and the magnitude of trade potentials indicates that the two-way trade stimulated by the CBI one-way free trade area would not have a net negative impact on U.S. employment opportunities, immediately or in the future.

Trade of Caribbean Countries

In 1981, Caribbean Basin Countries exported $18.4 billion and imported $32.1 billion, with a trade deficit of $13.7 billion. Excluding

exports and imports of petroleum and products, total 1981 exports of the Caribbean Basin Countries were $8.6 billion and imports were $18.4 billion, with a trade deficit of $9.8 billion. In comparison, the 1980 estimated gross domestic product of the CBI beneficiaries totaled only $45 billion. Thus, the importance of trade to their economies and the significance of increased exports to economic development are starkly evident.

Caribbean Basin Trade with the United States

In 1981, exports to the United States by the Caribbean Basin Countries totaled $9.3 billion, approximately 50 percent of exports to all countries. Imports from the U.S. totaled $6.6 billion, 21 percent of Caribbean Basin total imports. However, the United States accounted for 68 percent of Caribbean Basin Countries' exports to industrial countries. Likewise, imports from the United States were 52 percent of Caribbean Basin Countries' imports from all industrial countries. Considering the fact that many of the Caribbean countries long have had close economic and political ties with Western Europe, this high concentration of trade with the United States is impressive.

United States Imports

In 1982, in terms of U.S. foreign trade statistics, the United States exported $6,339 million to Caribbean Basin Countries and imported $8,007 million from Caribbean Basin Countries. The $8,007 million in U.S. imports from Caribbean Basin Countries represents 3.3 percent of total U.S. imports of $242.3 billion in 1982.

Of this import total of $8,007 million, $1,866 million are statutorily free of duty and would not be affected by the CBI free trade area. In addition, the dutiable imports which the proposed CBI legislation would exclude from the duty free treatment (petroleum, textiles, leather goods, etc.) amount to $4,961 million.

Imports affected by the CBI free trade area

This leaves a remaining total of $1,181 million which would be affected by the CBI free trade area. Of this total, $554 million are presently free of duty under the generalized system of preferences (GSP). Nevertheless, the free trade area could offer some encouragement to export expansion of GSP imports since such duty free imports would no longer be subject to losing their free status due to the GSP competitive need limitation. In general, the duty free eligibility is removed from imported products when the volume exceeds a competitive need limit, now $53 million, or when the beneficiary country supplies in excess of 50 percent of total imports of the GSP product. Moreover, the duty free status of GSP articles may also be terminated on an administrative finding by the President acting on a petition by competing domestic producers. In addition, GSP is scheduled to terminate December 31, 1984, unless extended by Act of Congress. The form and substance of that extension in the interest of developing countries is seriously in doubt at this time. The chart below summarizes the share of U.S. imports in 1982 that would be affected by the CBI free trade area:

	Millions of dollars	Percent of total
Total U.S. imports from Caribbean Basin Countries, 1982	8,007	100
Imports not affected by the CBI free trade area		
MFN/duty free from all countries	1,866	23
Excluded from proposed CBI free trade area	4,960	62
TOTAL	6,826	85
Imports affected by the CBI free trade area		
Dutiable imports	627	8
GSP duty free without competitive need limitation	554	7
TOTAL	1,181	15

The $627 million in dutiable U.S. imports from Caribbean Basin Countries which would become duty free account for only 0.4 percent of total dutiable U.S. imports ($166 billion in 1982). Likewise, the total of $1,181 million affected by the free trade area account for the same percentage, 0.4 percent of total U.S. imports ($242 billion in 1982).

It is clear that in a diverse area of small economies which only generated $8 billion in export trade to the United States, of which $1.9 billion is already permitted unlimited duty free access and $4.6 billion is petroleum and petroleum products, virtually free of duty, that the elimination of U.S. duties will not generate sufficient imports to threaten U.S. job opportunities.

Increased trade mutually beneficial

Even if the imports of $1,181 million affected by the free trade area were to double, such imports would still be less than one percent of total U.S. imports. However, such an increase would represent a 14 percent increase in Caribbean Basin exports to the U.S. and a 7 percent increase in such exports to all countries. The stimulative effect of such an expansion on these economies would be substantial.

Another factor insofar as employment impact of the CBI free trade area is concerned, is the likelihood that increased U.S. imports from Caribbean Basin Countries will result in increased U.S. exports to the area. These countries have many unmet needs in capital equipment. The demand for building machinery, transportation equipment, etc., is limited at this stage only by the supply of foreign exchange.

Moreover, the Caribbean Basin Countries have had to depend upon traditional exports of raw materials and little in the way of limited indigenous material resources remain to be developed to gain new export possibilities. Thus, to a large degree trade must develop from importing materials and components for processing and finishing for export, a trade pattern

already in place between the United States and the Caribbean Basin Countries. The U.S. market share will increase as overall Caribbean Basin trade grows.

These two factors support the thesis that there is a direct, beneficial relationship between increased access for Caribbean Basin exports and the United States and increased U.S. export sales to the area.

An early 1982 study (Pelzman and Roussland), "Effects on U.S. Trade and Employment of Tariff Elimination among the Countries of North America and the Caribbean Basin," January 1982.) sought to estimate the trade and employment effects of eliminating U.S. tariffs on imports from Caribbean Basin Countries. Based on this analysis it could be concluded that U.S. imports from Caribbean Basin Countries to be included in the free trade area would increase only $37 million, affecting less than 2,000 U.S. job opportunities.

The analysis cited above omitted any consideration of employment effects from increased U.S. exports to the area. However, the Department of Commerce estimate of jobs and exports indicates that 2,500 jobs result per $100 million in U.S. exports of manufactures. In any event, the margin error in these estimates is likely to exceed the estimated employment effects at the trade levels being discussed.

In fact, these comparisons are not useful approaches to measuring the potential trade which can be generated by the CBI free trade area. Considering the amount of trade involved, only a more detailed analysis would yield more accurate import estimates. The $627 million in dutiable imports is not a sound base for

assessing the potential trade which could be stimulated by the free trade area. For example, of the total $627 million in dutiable imports in 1982 which could become free of duty, $309 million entered the U.S. under tariff items 806.30 and 807. An additional $296 million in U.S. imports of textiles and apparel, leather goods and footwear, to be excluded from the free trade area, also benefitted from the item 807 tariff privilege. These tariff provisions, in general, permit U.S. components and materials to be exported abroad for assembly into more finished products and returned to the U.S. under conditions that no duty be assessed on the value of the imported article represented by the value of the incorporated U.S. material and components.

Production sharing operations significant

It bears repeating that in terms of current dutiable imports to be subject to the CBI free trade area, almost half, $309 million, represents articles imported under tariff items 806.30 and 807 containing U.S. materials and components assembled in Caribbean Basin Countries.

These assembly or production sharing operations are well adapted to the Caribbean Basin given the inadequacy of indigenous resources to develop, other than a labor force in need of employment.

The close relationship of these production sharing operations in the Caribbean Basin to the United States is indicated by the fact that 65 percent of the total value of imports from Caribbean Basin Countries under items 806.30 and 807 is accounted for by the value of U.S. components and materials included in the imported article. This is a much higher percentage of U.S. content than is found in such imports from

other developing countries, 50 percent, or industrialized countries, 27 percent.

Production sharing operations by U.S. firms are critized by some as resulting in U.S. job losses. However, U.S. industries adapt to a stronger competitive posture through production sharing. By having components assembled abroad, mostly in operations for which labor in the United States is unavailable at costs competitive with direct imports, U.S. producers are able to compete with foreign produced goods, saving U.S. jobs and production operations.

In fact, production sharing operations are the type of nontraditional export production opportunities that make the free trade area such a significant step for Caribbean Basin development. This is true because these operations are not dependent upon raw material resources of the countries. On the other hand, they develop local infrastructure and labor skills needed for further economic progress. The proximity of the Caribbean Basin to the U.S. market and the involvement of U.S. producers in the free trade area as the area is designed in the legislation, assure U.S. development of these potentials and increased U.S. exports in the expanded Caribbean Basin markets.

The legislation before the Congress recognizes this relationship by providing that in satisfying the local content requirement of 35 percent for duty free eligibility the imported article may include U.S. content up to 15 percent of the total value, as a part of the required local content.

Finally, as stated above, the existing level of trade does not represent the magnitude of potential growth in exports from Caribbean

Basin countries which are not exported by Caribbean Basin Countries at all. There has been no real examination of this potential.

Three examples from the Far East indicate a degree of progress that can be achieved with the proper development of free trade area possibilities. In Singapore, total exports in 1981 were $20,970 million or almost $8,600 per capita. Hong Kong total exports for 1981 were $21,820 million, $4,170 per capita. Similarly, Malaysia exported $11,198 million in total, with a lower $792 per capita. Per capita exports of Caribbean Basin Countries were $450 in 1981, and only $219 per capita excluding petroleum exports. However, 40 percent of Malaysia exports to the U.S. of $2.2 billion were under tariff items 806.30 and 807. Of this $900 million in exports to the U.S. entering under tariff items 806.30 and 807, some 60 percent was the value of U.S. components and materials. For Singapore, as well, the $2.1 billion exports to the U.S. included $843 million, or 40 percent which was entered under items 806.30 and 807. In the case of Singapore, only 47 percent of U.S. imports under the tariff provisions represented the value of U.S. components.

Malaysia, Singapore, Hong Kong and other newly industrializing countries in Asia, similar in some respects to countries in the Caribbean Basin, represent the potentials which can be strived for in the Caribbean Basin. To the extent that the potentials of the CBI free trade area can stimulate both U.S. investment and local efforts to attract that investment, the mutual benefits for the Caribbean Basin and the U.S. can be realized, without loss of job opportunities in the United States.

Mr. GIBBONS. Mr. Anthony.

Mr. ANTHONY. Mr. McNeill, on page 4, you talk about the fact that you would provide draft language for the record. Have you submitted that?

Mr. MCNEILL. I have it here, sir. I will submit it to the staff.

Mr. ANTHONY. Mr. Chairman, I think it would be helpful and beneficial if we could accept that draft language and look at it. I would like a quick overview of what the problem is because today is the first I have heard of it.

Mr. MCNEILL. Well, the bill before the committee has a provision in it under section 102 dealing with broadcast copyrighted material. Section 102 provides that if government-owned entities in any of the Caribbean nations are engaged in the broadcasting of copyrighted broadcast material of U.S. citizens, that this should be a factor that the President should take into account in determining whether to designate any particular country in the Caribbean as a beneficiary nation.

We simply would like to have that broadened to include not only broadcast copyrighted materials but other intellectual property rights, particularly to rights under copyright of book authors and publishers. So that is what we are asking, Mr. Anthony.

Mr. ANTHONY. Has there been some type of a problem here? Are you just trying to be double-safe.

Mr. MCNEILL. We would like to have it included in the bill. It presently is not in the bill, in either the Senate version or the House version, and it would be useful to some of our members if they had such a provision. We have discussed it with the administration and the committee staff.

Mr. ANTHONY. Well, I would close by commending you for your testimony. I have just quickly gone through your pamphlet by Harry Lamar. He has some outstanding analyses of the dynamics of what happens, and I think if anybody would stop and take a look at the facts and not get caught up in the emotional issue of trying to make too much out of something, they could really see that a very insignificant increase in imports to the United States has a compounded effect in those small island economies. And based on pure logic alone, it makes a great deal of sense for us to lend a helping hand to neighbors that we know are so strongly supportive of our democracy.

And for a multitude of reasons, not to mention national security as well as economics, the Members of Congress should read and analyze that pamphlet. I think they should take a close look at the special interest groups that are coming in and twisting their arms, pleading for help and and saying, "Oh, my God, they are going to run us out of business."

As you well know, I have been pushing very hard for the rum legislation. Here is 96 percent of the market that is taken up by Puerto Rico and the Virgin Islands, and the poor people in the Caribbean have only 4 percent of the market and are coming here and begging for more relief. And I will tell you, if I had 90 percent of the market in Arkansas, I would never have come to Congress. That is the kind of business you want to be in when you have that type of a market.

I just want to commend you for giving us some straightforward factual information based upon some case studies. I am just hopeful that we can influence the Members of Congress to vote on the facts and on the record and not be subject to some of these pressures.

Mr. JOHNSON. Mr. Anthony, we do have enough for all Members of Congress.

Mr. GIBBONS. I thank both of you for coming. I appreciate it very much.

Our next witness represents the West Indies Rum & Spirits Producers' Association. Mr. Wachholz is the counsel.

This may be a good time for us to take a break. We have to vote. We will run and vote and come right back.

[Recess.]

Mr. GIBBONS. We will resume.

We will be happy now to hear from the representatives of the West Indies Rum & Spirits Producers' Association. Go right ahead.

STATEMENT OF DOUGLAS P. WACHHOLZ, U.S. COUNSEL, WEST INDIES RUM & SPIRITS PRODUCERS' ASSOCIATION, ACCOMPANIED BY JAMES H. SOOD, PROFESSOR OF MARKETING AND INTERNATIONAL BUSINESS, THE AMERICAN UNIVERSITY, WASHINGTON, D.C.

Mr. WACHHOLZ. Mr. Chairman and distinguished members of the committee: My name is Doug Wachholz and I am the counsel for the West Indies Rum & Spirits Producers' Association. Accompanying me today is Dr. James Sood of the College of Business Administration at the American University. Dr. Sood is a recognized expert on the U.S. rum market and production capabilities as well as on a number of other international business topics.

The West Indies Rum & Spirits Producers' Association, or WIRSPA, is a Caribbean-wide regional association which represents the interests of the national associations of Antigua and Barbuda, the Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago. It has a central office in Bridgetown, Barbados.

I would like to apologize and offer regrets for Patrick Mayers, the president of WIRSPA, who is chairing a meeting that had been planned for about 8 months in Canada between WIRSPA and the Association of Canadian Distillers.

I believe it is pertinent to point out at this point that since 1974 Canada has allowed Caribbean rum duty-free entry. As a matter of fact, it is interesting that the market share of Caribbean rum over this time period since 1974 has actually decreased in Canada as compared to their local rum producers.

Contrary to other testimony that you have heard today in this room, in 1984 Canada will drop all duties on rum from many other countries including the U.S. Virgin Islands. I believe many members of this committee met Mr. Mayers on their factfinding trip last year and he sends his personal regrets.

WIRSPA supports the Caribbean Basin Economic Recovery Act, H.R. 2769. The association believes that the bill's provision for duty-free treatment of Caribbean exports is an important vehicle for accelerating the region's economic growth by encouraging the

private sector to play a lead role in the process. This is especially true with regard to rum.

Presently, full duty charges of $1.57 per gallon are levied on Caribbean rum imports as compared to 50 cents for gin, 43 cents for Canadian whisky, 35 cents for Scotch whisky and no duty on Puerto Rican and Virgin Islands rum. The existing duty on Caribbean rum is one of the reasons that it has such a small share of the rapidly growing U.S. rum market.

Total rum imports from other than Puerto Rico and the Virgin Islands amounted to only 3.3 percent of all rum brought into the United States in 1981 as compared to the Virgin Islands share of 12.7 percent and Puerto Rico's 83.6 percent share of the 27-million-gallon U.S. market. I cite The Liquor Handbook, which is the definitive industry publication, for these figures.

It should be noted that the Caribbean rum industries are particularly important intended beneficiaries under the CBI bill because of rum's important role in the economies of the exporting countries. Increased rum exports are an immediate direct source of desperately needed foreign exchange and tax revenues for the governments of these countries, most of which suffer severe negative trade imbalances with the United States.

Caribbean rum distillers provide jobs in a region where massive unemployment causes human suffering which can lead to social and political unrest and instability. The employment benefits the rum industry provides are not limited only to workers in the distilleries themselves. The important, but troubled, sugar industries in these countries depend to a large degree on the growth and stability of the rum exporters. Molasses, an important byproduct of sugar production, is the main feedstock in rum production. The demand for rum exports, thus, is an important determinant of the economic viability of the fragile sugar industries in the rum-producing Caribbean countries. Both Caribbean rum and sugar industries, therefore, will become larger and more dependable employers if rum is granted duty-free access to the United States under the bill.

Caribbean rum distilleries also contribute to raising the standard of living of their respective countries by paying high wages. Indeed, workers in the rum industries of the region earn some of the highest wage rates in the Caribbean. In Jamaica, the largest Caribbean rum exporter, the average wage in the aging and distillation process is $210 per week, which is higher than that paid in the bauxite, tourism, or agribusiness industries in that country.

Another positive aspect of allowing Caribbean rum to compete on an unfettered, duty-free basis is that it is one of the very few products of high local added value, with over 90 percent of the value of the finished product being produced in the region. All the distilleries except one are locally owned or controlled.

What is not widely known is the extent to which the importation of Caribbean rum creates American jobs. Bulk rum imports mean U.S. jobs in the manufacture of the bottles, labels, caps, and packages which the rum is bottled and sold in. American workers are also employed in the bottling, packaging, handling, distribution, and promotional processes for Caribbean bulk imports. The cooperage industry in the United States also greatly benefits from its

sales of American white oak barrels to Caribbean distilleries for their use in aging the rums.

Beyond this, Caribbean rum imports create foreign exchange to help that region's countries correct their unfavorable trade imbalance with the United States and to pay for increased Caribbean imports from the United States. More Caribbean rum imports, thus, will have the correlative effect of helping to create more American jobs.

WIRSPA is distressed, therefore, that the government of the U.S. Virgin Islands, with the support of the government of Puerto Rico, is attempting to undermine and limit the bill's relevance to the Caribbean and its private sector rum producers by denying duty-free entry of Caribbean bulk rums.

The Virgin Islands' latest proposal, submitted in oral testimony by Virgin Islands Governor Juan Luis before the Senate Finance Committee, would only permit duty-free entry of bottled Caribbean rum and calls for the establishment of a new U.S. Government aid fund administered by the Agency for International Development. This fund would be established with excise taxes paid on private sector Caribbean rum imports and would be given as aid by a proposed new government bureaucracy to the governments of the Caribbean, whether they are rum-producing countries or not.

This proposal is unacceptable to the rum producers of the Caribbean which WIRSPA represents. It has also been categorically denounced by all of the governments of the rum-exporting Caribbean countries. The governments of these countries have stated their total and unequivocal opposition to the Virgin Islands proposal in separate telegrams to Governor Juan Luis. These Caribbean governments also have expressed their views to the U.S. Government in a joint letter to Secretary of State George Schultz.

A special meeting of the Caribbean Common Market, Caricom, Commodities Working Party on Rum was held in Barbados on April 25, 1983. Representation at the meeting included delegates from member governments, the West Indies Rum & Spirits Producers' Association, the Caricom Secretariat, and the Organization of Eastern Caribbean States Economic Affairs Secretariat. The working party reaffirmed its unanimously adopted position—determined at a previous meeting on January 31, 1983—with regard to the proposed Caribbean Basin Economic Recovery Act, H.R. 2769, which is as follows:

> Caricom Member States should press for, one, the removal of import duties for all—bulk and bottled—Caribbean rum entering the U.S. market; and, two, the rejection of the U.S. Virgin Islands proposal which advocates the removal of import duty on bottled rum, the retention of import duty on bulk rum and the establishment of a development fund for Caribbean projects.

This position is consistent with the previous recommendation of the Caricom technical group on the CBI which has been accepted by the Foreign Ministers of the member states of Caricom.

WHO DOES MR. DE LUGO WANT TO HELP, AND WHO WANTS THIS AID?

The Virgin Islands proposal is seriously flawed and conflicts with the objectives of the administration's bill. The following points show why.

First, bulk rum is the product which comprises most of the rum imports from the Caribbean—approximately 80 percent of the total, contrary to what you heard today. Bottled rum is only imported on a limited basis because the freight costs are much higher since shipping bottled rum means the additional payments for the weight of the glass bottles, the weight of the water used to dilute the rum to bottled market proof—bulk rum is shipped at double proof and diluted in the United States—and the packaging and bulk of the containers. Breakage of glass bottles also adds to the costs of shipping bottled rums.

Shipping bottled rum is, simply, very uneconomical. Bottled rum's duty-free entry is of only minor consequence to WIRSPA's member countries and rum industries. Bulk rum is the bread and butter of rum exports from the Caribbean.

The Virgin Islands proposal attempts to derogate from the private sector trade promotion thrust of the bill and to substitute instead an amorphous United States and Caribbean governmental aid mechanism.

I have to admit that I don't quite understand all of the aspects of the Virgin Islands aid fund proposal, as I read it.

Under the Virgin Islands proposal, the private sector rum producers of the Caribbean would be discouraged from expanding their productive capacities, thus limiting the concommitant economic benefits to their countries' development, in favor of a government-to-government aid program unrelated to the needs and capabilities of the respective beneficiaries.

The Virgin Islands proposal would deny complete duty-free access to the U.S. market of a product manufactured and distributed by free enterprise, which uses only indigenous Caribbean raw materials and labor, which is an important byproduct of a critical sector—the sugar industry—of most Caribbean economies, and which is a highly visible and emotional symbol of Caribbean productive capacity and regional pride.

It is absolutely clear that the unfettered duty-free entry of Caribbean rum, which comprises about 4 percent of the rapidly expanding U.S. rum market, will in no way harm the rum industry of the U.S. Virgin Islands, or that of Puerto Rico. The duty-free rum imports from those territories account for over 96 percent of the U.S. market. Under U.S. law, the excise taxes collected on Puerto Rican and Virgin Islands rums are covered back to the treasuries of those two territories. These substantial sums—$230 million for Puerto Rico and $35 million for the Virgin Islands in 1981 alone—are then used in part to help defray the promotional costs of the marketing of the rums and, in the case of the Virgin Islands, to help subsidize the purchase of molasses, the most significant cost element in the production of rum.

Presently, Caribbean rum producers pay between 35 and 50 cents for molasses per gallon, while the cost of molasses to the only Virgin Islands distillery, owned by Shenley, is 16 cents because the Virgin Islands Government has agreed to subsidize the cost of molasses above this price. Under H.R. 2769, Puerto Rico and the Virgin Islands would, additionally, receive the excise taxes paid on Caribbean rum imports—over $10 million to start this year—thus

giving them even greater subsidies and advantages over much more expensive Caribbean rums.

If these subsidies were not enough, the Virgin Islands further subsidizes Shenley, by forgiving 90 percent of its Federal tax obligation and using the remaining 10 percent to promote rum sales. There are no such subsidies for the Caribbean producers, which, in large part, explains their continuing inherent competitive disadvantage with regard to the Virgin Islands.

Dr. Sood's careful and thorough study of the potential impact of the Caribbean Basin Economic Recovery Act on Puerto Rico and the U.S. Virgin Islands describes this issue. I would like to submit a copy for the record, Mr. Chairman.

Mr. GIBBONS. How thick is the paper?

Mr. SOOD. About 25 pages.

Mr. GIBBONS. We will include it in the record.

Mr. WACHHOLZ. The paper that Dr. Sood produced is entitled "The Potential Impact on Puerto Rico and the Virgin Islands Due to the Removal of the U.S. Import Tariff on Rum."

Dr. Sood's paper amply demonstrates that Puerto Rico and the Virgin Islands' rum industries will not be harmed. Indeed, a strong case can be made that duty-free Caribbean imports under the administration's bill will actually further strengthen Puerto Rico and the Virgin Islands and their rum industries.

The particularly discouraging aspect of the Virgin Islands proposal is that it is not needed to protect the continued growth of Virgin Islands or Puerto Rican rum exports. According to the definitive industry trade publication, The Liquor Handbook, 1982 Edition, the U.S. rum market will continue to grow at an 11-percent average annual rate through 1991. If Caribbean rums are allowed to compete for a portion of this rapidly expanding market, they will be able to take up some of the increasing growth area, and not in any way threaten present Virgin Islands or Puerto Rican exports.

In a rapidly expanding market, there will be sufficient flexibility to absorb the increased rum volumes entering the United States from Caribbean producers without any adverse impact on the Virgin Islands or Puerto Rico. The Caribbean rum producers are simply seeking to share in this growing market.

Additionally, H.R. 2769 has extremely ample, indeed generous, protections built into it for Puerto Rico and the Virgin Islands. Besides the payment of excise taxes on Caribbean rums to the treasuries of the two U.S. territories, sections 103(e) and 104(f) of the bill allow Virgin Islands and Puerto Rican industries to bring actions for import relief before the International Trade Commission under the Trade Act of 1974 for any injury caused by increased imports from the Caribbean.

This conflicts with testimony you have heard from other sources today. They don't seem to be aware of these sections of the act.

Section 104(c) of the bill, which has been totally ignored today, also permits the President to withdraw duty-free treatment on rum if he determines that excise tax revenues given to the Virgin Islands and Puerto Rico fall below the level they would have reached had the Caribbean rums come from Puerto Rico and the Virgin Islands. This safeguard provides for protection for the U.S. territories

against a potential future lowering of the excise tax rate only for Caribbean rums.

Another bonus in the bill for the Virgin Islands is the exemption it receives in section 104(g) from the Federal Water Pollution Control Act effluent standards and requirements for the territory's rum distillery. It is, therefore, very difficult to envision any rational argument contending that H.R. 2769 will hurt the rum industries of the Virgin Islands or Puerto Rico.

In conclusion, WIRSPA believes that the access to the U.S. rum market afforded by H.R. 2769 is a matter of vital importance to the rum industries of the Caribbean. With the unfettered duty-free entry of their products into the dynamic U.S. market, they can much more effectively contribute toward solving the region's terrible foreign exchange, revenue, and unemployment problems.

WIRSPA urges the Ways and Means Committee and the full House of Representatives to reject the latest legislative attempt by the Virgin Islands to limit the duty-free import of Caribbean rum in the form of Mr. de Lugo's recently introduced bill. The Caribbean rum producers respectfully urge you to again vote for fair and free access of this highly visible symbol of the region's productive capacity, and to vote against Mr. de Lugo's latest proposal, in whatever form it may eventually take, because it would be very damaging to legitimate and long-term U.S. interests to overprotect the Virgin Islands and Puerto Rican rum industries at the expense of helping to alleviate serious Caribbean needs through private sector initiative.

[An attachment to the prepared statement follows:]

THE POTENTIAL IMPACT ON PUERTO RICO AND THE VIRGIN ISLANDS DUE TO THE REMOVAL OF THE U.S. IMPORT TARIFF ON RUM

Dr. James H. Sood

Dr. James H. Sood is a Professor of Marketing and International Business at The American University in Washington, D.C.; having held the position of Visiting Professor of International Marketing at the Helsinki School of Economics in Finland, and Assistant Professor of Marketing and International Business at George Mason University in Virginia. He has earned the Doctorate and Master degrees in business administration from George Washington University, a Bachelor degree in general engineering from the University of Illinois, and a Bachelor degree in physics from The College of William and Mary.

Dr. Sood has been a marketing and management consultant since 1969. Prior to this, he was the vice president and general manager of Advanced Computer Techniques Corporation in Washington, D.C., a vice president of Kuhn, Smith, and Harris, Inc. in New York, and a regional marketing manager for the IBM Service Bureau Corporation in New York. In 1978, he accepted the first SBA Fellowship as a Special Assistant to the Administrator of the U.S. Small Business Administration. He has conducted considerable research on exporting, international marketing, and small business, and has published in the Columbia Journal of World Business, The California Management Review, The Finnish Journal of Economics, The Journal of International Business Studies, and a number of other publications. With two colleagues from the College of Business Administration of The American University, he conducted the research and analysis and prepared the comprehensive study titled The Market for Rum in the United States, which was published by the Organization of American States in November, 1976.

THE POTENTIAL IMPACT ON PUERTO RICO AND THE VIRGIN ISLANDS DUE TO THE REMOVAL OF THE U.S. IMPORT TARIFF ON RUM

EXECUTIVE SUMMARY

Objective of the Study

To determine the effects on Puerto Rico and the Virgin Islands due to the elimination of the U.S. import tariff on rum.

Background

The Caribbean Basin Economic Recovery Act (HR 5900) was initiated because of the concern of the United States for the economic conditions of the people in the Caribbean Region. Title I of the Act proposes duty-free treatment for all eligible articles from the countries in the Caribbean. Rum is one of the few products that can be produced from the limited resources of the region.

However, the United States is also concerned about the economies of Puerto Rico and the Virgin Islands. By legislative act in 1954, The United States agreed to rebate the federal excise taxes (FET) on all rum produced in Puerto Rico and the Virgin Islands, and shipped to the United States, to the respective treasuries of these associated territiories. Due to the importance of the rebates to these countries, the United States has been hesitant to lower the import tariff on rum because of the possibility that this might lead to a reduction in the market shares of these countries. If this occurred, these countries would ship less rum to the United States, which would reduce the rebates of the federal excise taxes covered to the treasuries of Puerto Rico and the Virgin Islands. The paper is addressed to the analysis of this question.

Conclusions

The elimination of the U.S. import tariff on rum would have no adverse effects on Puerto Rico and the Virgin Islands. In fact, Puerto Rico and the Virgin Islands would gain by the passage of the Caribbean Basin Economic Recovery Act.

1. Puerto Rico and the Virgin Islands would continue to receive the rebate of the FET on rum shipped from their countries to the United States. The amount of these rebates would not decrease because the present market shares of Puerto Rico and the Virgin Islands would not be affected adversely from the removal of the tariff, because:

   a. The production costs of Puerto Rico's branded rums (Bacardi, Ronrico, Don Q, etc.) and of the Virgin Islands' largely unbranded rums are both far lower than any of the rums imported from Barbados, Dominican Republic, Guyana, Haiti, Jamaica, or Trinidad.

   b. The large producers (Seagram, Schenley, and Bacardi) dominate the channels of distribution to the extent that the small Caribbean producers cannot "push" a serious increase on the control states, wholesalers, and retailers.

   c. The large producers are able to spend considerably larger sums of money on advertising, sales promotion, and personal selling than any of the small Caribbean producers and their importers.

   d. Bacardi has an extremely strong hold on the consumers in the market, as illustrated by its 75% share of the market.

   e. The present tariff of $1.62 per proof gallon is $.26 per 750 ml bottle of 80 proof rum. Assuming a wholesale markup of 18% and a retail markup of 30%, this only amounts to $.40 per bottle at the final retail level. The removal of the tariff would only reduce Bacardi's price advantage in Virginia, for example, from 47% to 41%. It would reduce the price advantage of the private label of Virgin Island rum from 90% to 81%. Both of these price advantages are still too large to overcome.

f. The rum market in the United States has been growing at over an 11% annual compound rate for the last five years. For the reasons stated in paragraphs a through e above, the most optimistic estimate of the increase in imports due to the tariff elimination would by 10%. This increase would be 0.3% of the market that is increasing at 11% per year.

g. The larger producers will not move their distillation operations to any of the other islands in the Caribbean, because their present production costs in Puerto Rico and the Virgin Islands are far less than the other islands, and the infrastructure in Puerto Rico and the Virgin Islands is at least as good for the production of rum as any of the other Caribbean countries.

2. Puerto Rico and the Virgin Islands would also receive the rebate on all rum imported in the United States. This would be in addition to the present rebate of the FET on rum shipped to the United States.

3. If for any reason Puerto Rico and the Virgin Islands received less FET rebates than if the rum had been produced in their respective countries, the President could proclaim a duty rate for imported rum or withdraw the duty free treatment of rum.

4. Even though Puerto Rico and the Virgin Islands are dependent on other countries for their molasses supplies, this could not be a problem because of restricted supplies. There are too many competitive source of molasses, including the United States.

5. There is no rationale for the proposed amendment to the Act which would limit the rum imports from the Caribbean countries to the amount of rum produced in the Virgin Islands and shipped to the United States. The unaged rum from the Virgin Islands and the branded rums from the other Caribbean countries compete in two different market segments.

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OBJECTIVE OF THE STUDY

To determine the effects on Puerto Rico and the Virgin Islands due to the elimination of the U.S. import tariff on rum.

BACKGROUND

The Caribbean Basin Economic Recovery Act (HR 5900) was initiated because of the concern of the United States for the economic conditions of the people in the Caribbean region. These conditions are partially illustrated by the average per capita income of $1,038 for the countries designated as beneficiary countries under the Act. This compares with a per capita income of $11,360 in the United States.[1] In an effort to expand the economic opportunity in the Caribbean Basin region, Title I of the Act proposes duty free treatment for all eligible articles from any beneficiary country in accordance with the provisions of the title.

The industries in the Caribbean countries are limited by the relative lack of natural resources. Because the climate and soil conditions in some of the islands are conducive to growing sugar cane, these countries have historically been involved in the sugar industry and in industries related to sugar. The production of rum is one of these related industries since rum is produced by the distillation of fermented molasses or other sugar by-products. This briefly explains why the rum industries in some of the Caribbean islands have been in operation for over 250 years.

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[1]Calculated from statistics provided by the 1982 World Population Data Sheet, Population Reference Bureau, Washington, D.C.

Nevertheless, the Caribbean rum producers have not exported any substantial amount of their products to the United States. One reason for this is that the U.S. import tariff on rum has been disproportionately high. While the import tariffs on Scotch whiskey, Canadian whiskey, and gin have been reduced over the years to $.39, $.48, and $.50 per proof gallon, respectively, the tariff on rum is $1.62 per proof gallon. During the multilateral trade negotiations in Geneva, the United States agreed to reduce this tariff from $1.75 in 1980 to $1.40 per proof gallon in 1987. This planned reduction, however, will still leave the import tariff on rum considerably higher than the import tariffs on the other distilled spirits, most of which are imported from developed, industrial countries.

The reason for maintaining a high import tariff on rum is the continuing concern of the United States for the economies of Puerto Rico and the Virgin Islands. These countries, as associated territories of the United States, can produce and export products to the United States free of import duties. The federal excise tax (FET) is in addition to the import tariff. All producers and importers of distilled spirits must pay the FET of $10.50 per proof gallon to the United States Treasury. It was established by legislative act in 1954 that the FET on applicable goods produced in Puerto Rico and the Virgin Islands and shipped to the United States will be rebated to the treasuries of these two producing territories.

In practical terms, applicable goods has meant rum. The rebate of the FET on rum shipped to the United States is a substantial source of revenue for these countries. It amounts to approximately 10% of all government revenue in Puerto Rico and about 15% of all government revenue in the Virgin Islands. In absolute terms, this amounted to about $230 million revenue for Puerto Rico and about $35 million revenue for the Virgin Islands in 1981. Due to the importance of these rebates to the economies of Puerto Rico and the Virgin Islands, the United States

has been hesitant to lower the import tariff on rum. The possibility that this might lead to a reduction in the market shares of the Puerto Rican and Virgin Island rum industries has been raised as an objection. It is argued that if this occurred, these countries would ship less rum to the United States, which would reduce the rebates of the federal excise taxes covered to the treasuries of Puerto Rico and the Virgin Islands. The remainder of the paper is addressed to the analysis of this question.

MARKET STRUCTURE

Size and Trend of the Market

The rum market in the United States has increased at more than an 11% annual compound growth rate for the last five years. Rum has shown the largest relative increase of all distilled spirits during the last fifteen years by moving from 2.3% of the consumption of all distilled spirits in 1966 to 7.1% in 1981. With an increase of 9.0 million cases, rum follows vodka, with an increase of 19.7 million cases, and Canadian whiskey, with an increase of 12.8 million cases, for the largest absolute increase in distilled spirits during this period.

The growth of rum sales can be attributed, in part, to the general consumer trend toward lighter (in color), more bland (in taste), and lower proof (80 proof) distilled spirits. Another reason for the increased sales of rum could be that it is usually one of the lower priced types of distilled spirits.

While the consumption of rum in the United States has leveled off in the last two years, most people in the industry believe that rum consumption will continue to increase in the coming years. For example, in 1975, it was estimated that 1980 rum sales in the United States would be 8.3 million cases, based on the trend for the previous fifteen years. As shown in the following table, the actual 1980 rum sales exceeded this by 3.0 million cases. Using the same method of estimation (extending the trend of the last fifteen years), rum consumption in the United

States is projected to be 20 million cases in 1986 and 34 million cases in 1991.[1] What will actually happen is conjecture, of course, but the prospects for the U.S. rum market can be described as promising.

TABLE 1

U.S. RUM IMPORTS BY COUNTRY OF ORIGIN

(000's of proof gallons)

Source of Rum	1977	1978	1979	1980	1981
Puerto Rico	14,761	18,154	23,257	21,784	22,315
Virgin Islands	2,053	3,449	3,246	3,595	3,394
Imported	657	874	714	1,090	969
Total	17,471	22,477	27,217	26,469	26,678

Source: The Liquor Handbook - 1980, 1981, and 1982, Gavin-Jobson Associates, Inc., New York, N.Y.

TABLE 2

PERCENTAGE SHARE OF U.S. RUM IMPORTS BY SOURCE

Source of Rum	1977	1978	1979	1980	1981
Puerto Rico	84.5%	80.8%	85.5%	82.3%	83.7%
Virgin Islands	11.8	15.3	11.9	13.6	12.7
Imported	3.7	3.9	2.6	4.1	3.6

Source: Calculated from statistics in table 1.

[1] The Liquor Handbook - 1976 and 1982, Gavin-Jobson Associates, Inc., New York, N.Y.

The Sellers in the Market

The rum market in the United States is dominated by the Bacardi Company, which has approximately 75% of the market. Bacardi has established this position by being one of the early producers in the market, by concentrating its resources on rum, and by developing an effective distribution system that includes all the control states and over 200 wholesalers. This effort has been supported by an extensive advertising and promotion program and by effective market research. Bacardi produces all of its rum for the U.S. market in Puerto Rico. Most of the rum is shipped in bulk (4,000 gallon) containers to Jacksonville, Florida, where is it blended, bottled, and packaged. Bacardi rum for the West Coast is bottled in Puerto Rico and shipped directly to that area. The Bacardi Company also has a second brand of rum, "Castillo", that is less expensive and is sold largely to restaurants and bars. This brand was introduced in 1976 and is now the second largest selling brand of rum in the United States. Bacardi is a multinational operation with production facilities in nine countries and bottling plants in six countries. The design of the international operation allows Bacardi to operate inside the tariff and non-tariff barriers of its market countries. To a limited extent, Bacardi can shift the levels of production among its production facilities to meet the changing demands of its markets. This shifting is constrained by the tariff and non-tariff barriers, as well as by a number of logistical difficulties.

The Seagram Company is the other multinational operation in the U.S. rum market, although its rum operations are not nearly so extensive as Bacardi's. Seagram acquired the Myers's Rum Company of Jamaica after World War II, and presently owns a minority interest in the Clarendon Distillery there. The Jamaican National Sugar Company, a government owned organization, is the

majority owner of the Clarendon Distillery and the Innswood Distillery and the sole owner of the Longpond Distillery. The Seagram Company has been appointed the marketing agent for the Longpond Distillery and represents the government in respect to sales for all distilleries in which the government has interests. The total distilling capacity of these three operations is about 3.0 million proof gallons. Seagram also has a distilling and bottling operation in Puerto Rico, where it produces "Ronrico," the third largest selling brand in the U.S. Market.

TABLE 3

ESTIMATED RUM CASE SALES BY BRAND IN THE U.S. MARKET

(000's of cases)

Brands	1977	1978	1979	1980	1981
Bacardi	5,000	6,200	7,200	7,400	7,750
Castillo	350	525	675	700	850
Ronrico	625	675	725	800	750
Don Q	230	270	300	330	N/A
Carioca	150	110	130	110	N/A
Other Brands	1,558	1,757	2,006	2,696	1,987
Total	8,112	9,786	11,726	11,327	11,745

Source: Time Marketing Report #2260, Time Magazine, 1981.

Schenley's only rum operation is a distillery in St. Croix, Virgin Islands. The rum produced in this facility is shipped in bulk containers to the United States, where it is blended and bottled as Schenley's brands, sold to the prepared cocktail producers, or sold to smaller bottlers. The latter buyers purchase unaged rum primarily for the blending and bottling of rums for private labels. Schenley is one

of the buyers of rum for prepared cocktails since its line of prepared cocktails, "Cocktails for Two", is a significant force in that market segment.

TABLE 4

PRODUCERS AND IMPORTERS OF RUM BRANDS IN THE U.S. MARKET

Brand	Producer	Country of Origin	Importer
Bacardi	Bacardi	Puerto Rico	Bacardi
Castillo	"	" "	"
Myers's	Seagram	Jamaica	Seagram
Ronrico	"	Puerto Rico	"
Carioca	Schenley	Virgin Islands	Schenley
Cruzan	"	" "	"
Old St. Croix	"	" "	"
Appleton	J. Wray	Jamaica	Somerset
Don Q	N/A	Puerto Rico	Heublein
Mount Gay	Mount Gay	Barbados	Foremost/McKesson
Barbancourt	N/A	Haiti	Monsieur Henri
Lemon Hart	N/A	Guyana	Julius Wile
Mr. Boston	N/A	Guyana	Glenmore
Granada	Puerto Rican Dist.	Puerto Rico	Summit
Palo Viejo	" " "	" "	"
Ron Llave	" " "	" "	"
Jacquin	N/A	N/A	Jacquin Et Cie

and a number of other less known brands

The "Appleton" brand of J. Wray & Nephew, Ltd., Kingston, Jamaica, is the most successful, non-U.S. Territory rum export to the United States. It is estimated that 1981 sales of "Appleton" rum in the United States were about 80,000 cases. However, it has taken this company over twenty years, in a very favorable rum market, to achieve this level of sales. J. Wray has recently changed importers, from Schieffelin & Company of New York to Somerset Importers, Ltd. of New York in order to increase the sales of "Appleton" in the United States. "Appleton" is shipped from Kingston in bulk and bottled in New York.

"Don Q" is produced by a family-owned corporation in Puerto Rico, and imported and distributed in the United States by Heublein, Inc. Heublein is also the major producer of prepared cocktails, some of which include rum.

"Mount Gay" is the only Barbados brand that is marketed actively in the United States. It is estimated that sales of "Mount Gay" were approximately 60,000 cases in 1981. Mount Gay rum is also shipped in bulk to the United States where it is bottled and packaged. Other producers and importers have not played an important role in the U.S. rum market in the past, and it is anticipated that this will not change in the foreseeable future.

Another way to examine the sellers of rum in the U.S. market is to analyze the production capabilities of each of the countries. The following table describes the critical factors of rum production in the major rum producing countries in the Caribbean. Other countries are not listed since their exports to the United States have been relatively small.

TABLE 5

RUM INDUSTRIES IN SELECTED COUNTRIES, 1980

(millions of proof gallons)

Country	Production	Dom. Mkt.	Exports	Dist. Cap.	Operating % of Dist. Cap.
Barbados	1.8	0.7	1.1	5.0	36%
Jamaica	4.6	1.9	2.7	9.2	50
Puerto Rico	24.7	3.1	21.6[a]	N/A	N/A
Trinidad	3.7	2.0	2.7	6.0	62
Virgin Islands	3.7	-	3.7[a]	5.3	70

Sources: Various government statistics and industry people in the respective countries.

[a] Exports include rum shipments to the United States.

From the above statistics it is obvious that there is considerable unused distillation capacity in these countries. For instance, the West Indies Rum Refinery in Barbados is presently operating at one-third of its capacity of 3.0 million proof gallons. Mount Gay Plantation is operating at roughly one-half of its distillation capacity. Hanschell Inniss, Ltd. purchases rum from the West Indies Refinery and blends and bottles the "Cockspur" brand. This brand has recently become the largest selling brand in the domestic market, and its major export markets are the United Kingdom and Canada. The Martin Doorley Company of Barbados also purchases rum locally and blends and bottles the "Doorley" brand for the domestic market, and exports some rum in bulk to Canada and the United Kingdom.

J. Wray & Nephew, Ltd. of Jamaica provides most of the rum for the domestic Jamaican market, and is the main Jamaican exporter of rum to the United States. Its Appleton distillery is operating at about 75% of its 5.0 million gallon distillation capacity. The other distilleries in Jamaica, which produce mostly raw rum, are operating at less than 50% of capacity. As mentioned previously, Seagram ships rum in bulk containers from its Clarendon Distillery to Puerto Rico, where it is bottled as "Myers's" rum. Most of the other distilleries produce bulk rum, primarily for sale in Canada, the United Kingdom, and other European countries.

In Trinidad, Bacaradi has a minority interest in the Fernandes distillery, in partnership with the Angostura Company. The distillery continues to produce the "Old Oak" brand for the domestic market; however, its major output, is shipped in bulk form to the United Kingdom and Canada. The other distillation facility in Trinidad, which is owned by the government, produces "Caroni" rum for the domestic market and exports some rum to Canada and the United Kingdom.

TABLE 6

SUGAR CAPACITIES IN SELECTED COUNTRIES, 1980

Country	Rum Production	Sugar Production	Molasses Operating Capacity[a]	% of Mol. Cap.
Barbados	1.8 mpg[b]	135,000 tons	5.0 mpg	36%
Jamaica	4.6 mpg	228,000 tons	8.4 mpg	55
Puerto Rico[c]	24.7 mpg	159,000 tons	5.9 mpg	419
Trinidad	3.7 mpg	116,000 tons	4.3 mpg	86
Virgin Islands[d]	3.7 mpg	- 0 -	- 0 -	- 0 -

Sources: Various government statistics and industry people in the respective countries.

a One ton of sugar 50 gallons of molasses 37 gallons of rum (approximate).

b mpg = millions of proof gallons

c Puerto Rico imports over 80% of the molasses required for its rum production.

d The Virgin Islands imports all of the molasses required for it rum production.

The domestic supply of molasses to support the production of rum is another critical factor in this industry. The previous table shows that Barbados, Jamaica, and Trinidad have a sufficient domestic supply of sugar to support the production of rum in their respective countries. On the other hand, Puerto Rico has been importing over 80% of the molasses for its rum industry,[1] and the Virgin Islands must import all of the molasses required for the distillation of its rum.[2] Both of these factors are critical to the central research question of the study, and are discussed further in the 'Access to Production Inputs' section of the report.

A final element in the country analysis of the rum producers is the traditional markets for the rum exports of the respective countries.

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[1]Jaime Zapata Acosta, Industrie de Ron, paper prepared for the Economic Development Administration, Government of Puerto Rico, March 16, 1981.

[2]U.S. Department of Agriculture, October 20, 1982.

TABLE 7

DESTINATION OF RUM EXPORTS FROM CARIBBEAN PRODUCERS, 1980

(millions of proof gallons)

Exporting Country	Export Destination				
	USA	U.K.	Canada	Other	Total
Barbados	0.1	0.5E	0.2E	0.3E	1.1
Jamaica	0.8	0.9	0.3	0.7	2.7
Puerto Rico	20.8	-	-	0.8	21.6
Trinidad	-	1.0E	1.6E	0.1E	2.7
Virgin Islands	3.5	-	-	0.2	3.7

Sources: Government trade statistics of the respective countries.
E = Estimated

The significance of this data is that the producers in Barbados, Jamaica, and Trinidad consider that the United Kingdom, Canada, and other countries are their major export markets. Mount Gay of Barbados and J. Wray & Nephew of Jamaica are the exception to this. Conversely, Puerto Rico and the Virgin Islands consider the United States to be virtually their sole market. While the traditional ties have influenced the direction of the Caribbean rum trade, the import barriers in the various markets, and the export assistance by some of the producing countries have played a very significant part in the formation and operation of the business.

The Buyers in the Market

The younger consumers, 18 to 34 years of age, constitute a large part of the U.S. rum market. The following data, obtained in a recent consumer survey, tend to support this statement:

TABLE 8

CONSUMERS WHO SAID THEY DRINK RUM MOST OFTEN OF ALL TYPES OF DISTILLED SPIRITS

By Age Group

18-24	25-34	35-49	50+
27.5%	16.7%	12.1%	8.8%

By Level of Income

under $15,000	$15,000-$25,000	over $25,000
19.4%	14.1%	7.0%

Source: The Liquor Handbook - 1982, Gavin-Jobson Associates, Inc. New York, N.Y.

The second set of statistics also tends to support the statement that the younger consumer are a large part of the rum market, since these consumers would most likely have less income. This is another indication of the popularity of rum being due, in part, to the fact that rum is one of the lower priced distilled spirits, since consumers with lower incomes would generally be interested in less expensive products. The fact that many younger consumers drink rum with cola would tend to diminish the relative importance of the perceived quality of the product and would tend to enhance the relative significance of the lower price.

It is estimated that the number of people in these age brackets will increase by 20% or so during the present decade. This would indicate a continuing growth of the U.S. rum market, assuming the drinking behavior of the people in these age groups remains the same.[1] All of these factors suggest a continuing, strong demand for lighter, more bland, less expensive rum in the 1980's. However, this implies that a producer must be able to provide this type of rum at the lower price in order to increase its market share to any substantial extent.

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[1] The Liquor Handbook - 1982, op cit.

A majority of the consumers of rum are women. This finding would also appear favorable to the rum market due to the increasingly active role of women in American society. The rapidly increasing Hispanic population is another positive factor influencing the U.S. rum market. Rum sales are relatively strong throughout the country, regardless of whether the distribution of alcoholic beverages within the state is controlled or not. The states along the Eastern Seaboard, as well as Michigan, Illinois, Texas, and California, are the larger state markets for rum. This dispersed demand means that it is mandatory for a producer to have extensive channels of distribution throughout the country, as well as intensive channels in the major market segments, for the producer to increase its market share significantly.

MARKET CONDUCT OF THE SELLERS

Product Planning

As stated previously, one of the primary reasons for the increased demand for rum in the United States is that it has met the needs of the general consumer trend for a lighter, more bland distilled spirit. The producers are well aware of this trend, and most of the rum produced for the U.S. market satisfies these needs.

It is generally considered that the rums produced in Barbados, the Dominican Republic, Haiti, Jamaica, and Trinidad, and some of the other islands are more full-bodied than the rums of Puerto Rico and the Virgin Islands. This is due to mixing column-still rum with various aged, pot-still rums to produce blended rums with more taste and aroma. Column-still rum is often called raw rum, and is close to being absolute alcohol. The color of the rum is produced by adding caramel coloring, and is not usually an indication of the type of rum.

Heavier, aged rums can be, and are produced in some of the islands. Many of these rums are comparable to an excellent cognac. The American consumers are

however, essentially unaware of these products. Their understanding of rum is a relatively light, bland distilled spirit. Furthermore, there is no legal requirement in the United States to indicate the age of the rum on the label. As a consequence, most of the branded rum consumed in the U.S. market is usually aged about one year, while many of the less expensive brands are not aged at all. Thus, there is a decided demarcation between the major brands of rum and the lower priced, private label brands.

Bacardi has a unique position in the market because of its unusually strong hold on the consumers and the channels of distribution. This company is able to maintain economies of scale in marketing because of its large sales volume. The other large producers such as Seagram, Schenley, and Heublein, can also realize economies of scale in marketing, to a lesser extent, because of the breadth of their product lines of distilled spirits. The smaller companies in the Caribbean that only produce rum are severely limited in this regard. Most of these smaller companies that have tried to enter the U.S. rum market have attempted to overcome this limitation by associating with importers that distribute a number of different types and brands of distilled spirits. This has been marginally successful, as shown by the relatively small amount of imported rum in previous years. This is one of the major factors that will continue to limit the imports of rum, even with the elimination of the U.S. import tariff on rum.

Access to Production Inputs

The most important factor, in terms of cost, in the production of rum is molasses. Molasses represents between 50% and 70% of the direct production costs. The cost of molasses varies throughout the Caribbean, depending on the sugar supply and the availability of reasonable shipping.

Puerto Rico, which now imports more than 80% of the molasses required to make rum, was paying $.75 per gallon in 1980. It is estimated that the average price for molasses in Puerto Rico is about $.85 per gallon at the present time.[1] The Virgin Island distillery imports all of its molasses, since there is no substantial domestic sugar supply.[2] The present cost of molasses to the Virgin Islands is estimated to be slightly higher than Puerto Rico because of the additional shipping costs from San Juan, Puerto Rico to St. Croix.

Most of the other islands are self-sufficient in molasses. The Dominican Republic has traditionally exported molasses and is the major supplier of Puerto Rico and the Virgin Islands. Jamaica is an exporter of molasses, although these exports have decreased due to the declining sugar crop. The latest available trade statistics show that Jamaica exported 1.3 million gallons in 1980, at an average price of $.40 per gallon. Barbados has been increasing its exports of molasses each year, with the exception of 1981 when there was a sharp delcine in the sugar crop. The current price for molasses in Barbados is approximately $.60 per gallon.

The subject of molasses poses two questions in regard to the removal of the U.S import tariff for rum: Will sufficient molasses be available to the rum producers of Puerto Rico and the Virgin Islands at competitive prices.?

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[1]Jaime Zapata Acosta, Industrie de Ron, Paper prepared for the Economic Development Administration, Government of Puerto Rico, March 16, 1981

[2]U.S. Department of Agriculuture, October 20, 1982.

The availability of molasses should not be a problem. The type of molasses that is used in the manufacture of rum is a by-product of the sugar refining process. The economic need, the multitude of disparate interests, and the integrity of the people in the Caribbean will ensure the availability of molasses to Puerto Rico and the Virgin Islands. In addition, the United States has an abundance of molasses. In fact, the price of molasses is usually quoted in the Western Caribbean on the basis of FOB, New Orleans.

The price of available molasses to Puerto Rico and the Virgin Islands should also not be a problem, since the present cost differentials for molasses do not apparently affect the production costs of the rum producers in Puerto Rico and the Virgin Islands. This is shown by the following example:

The U.S. import tariff for rum - $1.62 per proof gallon

The tariff for a 1/5 (750 ml) bottle of 80° rum = ($1.62 ÷ 5) x .80 = $.26

With an 18% wholesale markup and a 30% retail markup, the total cost of the tariff to the consumer is $.40 per 1/5 (750 ml) bottle.

The Virginia Alcohol Beverage Control Board has the following retail prices for these three brands of rum in 750 ml bottles:

Brand	Source of Rum	Present Price	Price Adv. over Import	Price w/out Tariff	Price Adv. Over Import
Bacardi	Puerto Rico	$5.80	47%	$5.80	41%
Aristocrat (private label)	Virgin Islands	$4.50	90%	$4.50	81%
Mount Gay	Barbados	$8.55	-	$8.15	-

There can be no question that the apparent cost differentials for molasses do not adversely affect the production costs of the Puerto Rican and Virgin Island rum producers. Otherwise, Puerto Rico and the Virgin Islnads could not maintain these dramatic price advantages. The price differentials between Puerto Rican and

Virgin Island rum on the one hand, and imported rum on the other hand, are roughly the same in other state markets, as shown in a subsequent section of the paper. Furthermore, the production costs will not be affected by the elimination of the rum tariff, and the final retail prices will be influenced by $.40 or so on a one-fifth (750 ml) bottle. As shown in the previous table, Bacardi will still have a 41% price advantage, and the private label brand of Virgin Island rum will still have an 81% price advantage in the Commonwealth of Virgina.

The primary reason for the lower production costs in the Virgin Islands is that the Government of the Virgin Islands subsidizes the cost of molasses to the rum producers. The subsidy is structured so that the Government reimburses the producers for the cost of molasses over $.16 per gallon, up to a maximum of $1.00 per gallon. The effect of this is that, at the present price of molasses, the cost of molasses to the Virgin Island rum producers is only $.1[illegible] per gallon. This cost is far below the other Caribbean producers. Of course, the Government of the Virgin Islands can afford to do this because of the rebate of the federal excise taxes.[1]

Employment is a critical consideration in the Caribbean, however, labor costs are not a major factor in the production of rum. Labor rates in Puerto Rico, the Virgin Islands, and the other Caribbean islands are roughly comparable. Fuel and electricity charges comprise the balance of the direct production costs.

The last element, and one of the most important, to be discussed in this section is the infrastructure supporting the rum operations in these countries. Infrastructure in this sense includes, for example, the economic and political stability of the country; the extent and level of available communications; the reliability of shipping, including the availability of containers; and the dependability of the electrical supply. In this context, the infrastructure of Puerto Rico and the Virgin Islands is at least as good as the other islands in the Caribbean.

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[1] Staff Member, to the Assistant Secretary for Insular Affairs, U.S. Department of the Interior, November 2, 1982.

Distribution

The channels of distribution, along with consumer demand, are the key factors in determining market shares for the branded rums. Bacardi is its own importer and distributor. Because of its high sales volume, Bacardi can continuously take an aggressive position with its over 200 wholesalers. In essence, these wholesalers need Bacardi more than Bacardi needs them. This strong position results in Bacardi rum having the favored shelf position in the retail liquor stores. Furthermore, the high volume results in lower markups by the wholesalers and retailers. This means higher profit margins for Bacardi since the retail prices are roughly comparable to competing brands. The other large companies, Seagram, Schenley, and Heublein, attempt the same procedure. These companies, however, are less successful with their rum brands because of the strong consumer demand for Bacardi. Bacardi's lower priced brand, "Castillo", is an excellent example of the importance of distribution in the U.S. rum market. This brand was introduced in 1976, because Bacardi was concerned that some of the less expensive rums might capture some of the bar and restaurant market segment. By 1981, "Castillo" was the second largest selling rum brand in the United States, almost solely due to Bacardi's dominant position in the channels of distribution. Another example of the importance of distribution is that the ABC Stores in the State of Virginia only carry two imported brands, "Mount Gay" and "Myers's".

The significance of the importance of the channels of distribution in the U.S. rum market is that the small rum producers in Barbados, the Dominican Republic, Haiti, Jamaica, and Trinidad will not be able to increase their respective market shares significantly with the elimination of the U.S. import tariff for rum. The reasons for this is their relative lack of influence in the channels of distribution because of their lower volumes of sales. The removal of the tariff will not change the fact that these small rum producers cannot command the extensive distribution throughout the country and the intensive distribution in the major market segments that are necessary to increase market share substantially.

The other major aspect of distribution in the rum business is the increasing use of the bulk shipment of rum from the Caribbean producers to the bottlers in the United States. The general consumer trend is consistent with the production of column-still rum and the bulk transporation of that rum. This production and shipping operation lends itself to the multinational approach where the large companies acquire or develop the lowest cost source of supply, regardless of the nationality of the source. The multinational outlook in the rum industry, however, is severely constrained by import barriers in the market countries. The multinational approach is also limited by the relevant aspects of the infrastructures of the possible sources of supply. The large companies, Bacardi, Seagram, and Schenley, would not change their sources of supply if the U.S. import tariff for rum was eliminated, because to do so would not lower their costs of production, bottling, and distribution, nor would such a move improve the infrastrucure of their operating environment.

Promotion

The advertising expenditures for selected brands provide a further insight into the conduct of the rum producers and importers in the market.

TABLE 9

RUM ADVERTISING EXPENDITURES BY BRAND
IN THE U.S. MARKET - 1981

Brand	Advertising Expenditures (millions)	Advertising Expenditures (per case)
Bacardi	$7.501	$0.97
Myers's	5.583	18.60E
Ronrico	3.414	4.55
Don Q	.520	1.50E
Appleton	.950	11.87E
Cruzan	.941	6.27E
Mount Gay	.646	10.76E
Puerto Rican Rum	7.028	-

Source: The Liquor Handbook - 1982, Gavin-Jobson Associates, New York, N.Y.

These expenditures include all forms of paid advertising: magazines, newspapers, and outdoor displays. One aspect of these statistics is the strong promotion by Seagram of its "Myers's" and "Ronrico" brands, Schenley of its "Cruzan" brand, Somerset/J.Wray of their "Appleton" brand, and Mount Gay/Foremost-McKesson of the "Mount Gay" brand, Apparently, these companies are convinced that the rum market in the United States will continue its dramatic growth, and they are determined to gain larger shares of this market.

However, advertising is only one form of promotion. One of Bacardi's many strengths is its strong sales force. While it is often overlooked, a strong sales force is an essential factor in marketing rum successfully in the United States.

The previous table also shows the importance of economies of scale in marketing. Bacardi led all brand advertising with expenditures of $7.5 million in 1981; however, this represented only $.97 per case. Seagram made a sizeable advertising investment and, because of the resources of this corporation, it could probably maintain this level for a number of years. On the other hand, Mount Gay and J. Wray & Nephew, together with their importers, cannot keep up this level of expenditures for very long because of the higher per case costs. With the elimination of the tariff, these companies could either lower their prices slightly, or maintain the same prices and allocate the small, additional revenue to promotion. While this would be a positive factor for these companies, the relatively small amounts of capital involved would not significantly improve the market performance of the imported brands.

The last consideration in this regard is the large advertising support effort by Rums of Puerto Rico. While the effectiveness of this form of institutional advertising is difficult to determine, it must be considered a positive force for the "Bacardi", "Ronrico", and other brands of rum associated with Puerto Rico.

Pricing

The retail pricing patterns of rum effectively illustrate the difference between the less expensive rums, the branded Puerto Rican rums, and the imported branded rums in the U.S. market.

TABLE 10

THE MARKET FOR RUM BY PRICE CLASSES - 1981

Class	Price Range per 750 ml	Market Share
C	under $5.64	12.6%
B	$5.65-6.15	-
A	6.26-7.10	86.9
A-Prime	7.11-8.15	0.5
AA	8.16-9.50	-
AA-Prime	over 9.50	-

Source: The Liquor Handbook - 1982, Gavin-Jobson Associates, New York, N.Y.

These data are supported by the retail rum prices in Washington, D.C., Montgomery County, Maryland, and the State of Virginia. The latter jurisdictions control the distribution and sale of alcoholic beverages within the county and state, respectively.

TABLE 11

SELECTED RETAIL PRICES OF RUM - 1982

(750 ml)

Brand	Montgomery County, MD	Washington, D.C.	State of Virginia	Price Class
Bacardi	$5.09	$5.49	$5.80	A
Ronrico	5.05	4.99	5.80	A
Don Q	4.85	4.79	-	A
Cruzan	4.65	4.99	-	A
Appleton	7.29	7.49	-	A-Prime
Myers's	7.35	8.39	9.00	A-Prime
Mount Gay	7.15	7.99	8.55	A-Prime
Private Labels (Virgin Islands)	4.25	3.97	4.50	C

Both of the above tables indicate that rum is one of the less expensive types of distilled spirits. Although the retail prices in these areas tend to be lower than the national averages, the pricing patterns shown in table 10 are consistent with the current retail prices shown in table 11. The major Puerto Rican brands are priced according to class A in the national average prices, the imported brands are priced according to class A-Prime, and the private label rums and the less expensive brands are priced according to class C. Class C, or the less expensive rum, holds about 12.6% of the market, and the Virgin Island shipments of rum to the United States represent 12.7% of the U.S. market. It is reasonable to conclude that the Virgin Islands provide the large majority of the rum for the less expensive brands and private label rums.

The price advantages of the Puerto Rican and Virgin Island rums over the rums imported from the other Caribbean islands are significant. As described previously, the elimination of the rum tariff would decrease the retail prices of the imported rums by about $.40 per 750 ml bottle. This slight decrease would not substantially affect the price advantages of the Puerto Rican and Virgin Island rums.

In essence, Puerto Rico and the other Caribbean countries produce branded rums for the U.S. market, and the Virgin Islands produce unaged rum largely for private labels and prepared cocktails. There is a sharp price demarcation between the branded and private label rums, which is an excellent indication that these two kinds of rum compete in two different market segments. This fact is emphasized because this is no rationale for the proposed amendment to the Act, which would limit rum imports from the Caribbean countries to the amount of rum produced in the Virgin Islands and shipped to the United States. The unaged rum from the Virgin Islands and the branded rums from the other Caribbean countries compete in two different market segments.

BARRIERS TO MARKET ENTRY AND PENETRATION

Production Barriers

The rum industries of Puerto Rico and, particularly, the Virgin Islands have significantly lower unit production costs than the rum industries in the other Caribbean countries. These lower production costs present a barrier to the entry or increased penetration of the U.S. market by the Caribbean rum producers.

Market Barriers

The large distilled spirits producers realize economies of scale in many aspects of marketing because of the high volume of their rum sales or the substantial sales of their broad product lines of distilled spirits. This allows the large producers to dominate the channels of distribution. This, in turn, means that the wholesalers, retailers, and control states carry their brands of rum; that the wholesale and retail markups are lower, resulting in lower retail prices; and that the wholesalers and retailers tend to "push" their brands harder because of the importance of the large producers to the business operations of the middlemen. The higher volume of sales results in lower unit costs for advertising and personal selling, which means that the large producers can allocate considerably more funds to these promotion activities.

Another market barrier is the U.S. import tariff on rum.

Capital Barriers

The sales revenues of the large rum producers for 1981 are shown below:

Seagram	$2.773 billion
Heublein	$2.050 billion
Schenley	$ .693 billion
Bacardi	Statistics not available since the company is privately held. It is estimated that Bacardi had world wide sales of 15-20 million cases of rum in 1981.

The rum producers in the other Caribbean countries are considerably smaller than any of the large companies. While financial data are not available for these small companies, it is estimated, for example, that their total financial resources are less than 1% of the Seagram Company. This relatively restricted financial position severely limits the amount of resources that the Caribbean producers can commit to the promotion of their rums in the U.S. market.

CONCLUSIONS

The elimination of the U.S. import tariff on rum would have no adverse effects on Puerto Rico and the Virgin Islands. In fact, Puerto Rico and the Virgin Islands would gain by the passage of the Caribbean Basin Economic Recovery Act.

1. Puerto Rico and the Virgin Islands would continue to receive the rebate of the FET on rum shipped from their countries to the United States. The amount of these rebates would not decrease because the present market shares of Puerto Rico and the Virgin Islands would not be affected adversely from the removal of the tariff, because:
   a. The production costs of Puerto Rico's branded rums (Bacardi, Ronrico, Don Q, etc.) and of the Virgin Islands' largely unbranded rums are both far lower than any of the rums imported from Barbados, Dominican Republic, Guyana, Haiti, Jamaica, or Trinidad.
   b. The large producers (Seagram, Schenley, and Bacardi) dominate the channels of distribution to the extent that the small Caribbean producers cannot "push" a serious increase on the control states, wholesalers, and retailers.
   c. The large producers are able to spend considerably larger sums of money on advertising, sales promotion, and personal selling than any of the small Caribbean producers and their importers.

d. Bacardí has an extremely strong hold on the consumers in the market, as illustrated by its 75% share of the market.

e. The present tariff of $1.62 per proof gallon is $.26 per 750 ml bottle of 80 proof rum. Assuming a wholesale markup of 18% and a retail markup of 30%, this only amounts to $.40 per bottle at the final retail level. The removal of the tariff would only reduce Bacardi's price advantage in Virginia, for example, from 47% to 41%. It would reduce the price advantage of the private label of Virgin Island rum from 90% to 81%. Both of these price advantages are still too large to overcome.

f. The rum market in the United States has been growing at over an 11% annual compound rate for the last five years. For the reasons stated in paragraphs a through e above, the most optimistic estimate of the increase in imports due to the tariff elimination would by 10%. This increase would be 0.3% of the market that is increasing at 11% per year.

g. The larger producers will not move their distillation operations to any of the other islands in the Caribbean, because their present production costs in Puerto Rico and the Virgin Islands are far less than the other islands, and the infrastructure in Puerto Rico and the Virgin Islands is at least as good for the production of rum as any of the other Caribbean countries.

2. Puerto Rico and the Virgin Islands would also receive the rebate on all rum imported in the United States. This would be in addition to the present rebate of the FET on rum shipped to the United States.

3. If for any reason Puerto Rico and the Virgin Islands received less FET rebates than if the rum had been produced in their respective countries, the President could proclaim a duty rate for imported rum or withdraw the duty free treatment of rum.

4. Even though Puerto Rico and the Virgin Islands are dependent on other countries for their molasses supplies, this could not be a problem because of restricted supplies. There are too many competitive source of molasses, including the United States.

5. There is no rationale for the proposed amendment to the Act which would limit the rum imports from the Caribbean countries to the amount of rum produced in the Virgin Islands and shipped to the United States. The unaged rum from the Virgin Islands and the branded rums from the other Caribbean countries compete in two different market segments.

Mr. GIBBONS. Thank you, sir.

Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

I would like to take advantage of the expert that you have brought with you, Mr. Wachholz. First, let me say to your rum producers in the Caribbean that, in the face of all of the adversity, it is impressive that you have been able to carve out a market here in the United States.

And for the large distillers to ask for additional assistance from our committee, I must admit, I consider to be overkill.

I visited the Caribbean at the request of the President and was at first a lukewarm supporter of the Caribbean Basin Initiative. However, I returned as a very strong supporter of the initiative. But more particularly, I thought that if we allowed the rum section to be weakened, we might as well kill the bill, because it would be all rhetoric and no substance whatsoever.

In order to try and make a very strong record, so that other members hopefully will understand and support us in our efforts, could you tell me what the price of a bottle of Caribbean rum is compared to the Virgin Islands and the Puerto Rican rum?

Mr. SOOD. Yes. In the study that I did last fall, I looked at three areas: Virginia, D.C., and Maryland. To take Virginia for an example, in the Virginia ABC stores, Caribbean rum sells for $5.80 a fifth. Aristocrat, which is a private label rum from the Virgin Islands, sells for $4.50 a fifth, and Mount Gay, a rum from Barbados, sells for $8.55 a fifth, almost twice as much as the Virgin Islands rum. Now, the tariff at $1.57 a proof gallon, assuming usual markups at the wholesale and retail level, would be about 40 cents per bottle—per fifth. Now, if you reduce the price from $8.55 by 40 cents, it is still $8.15, significantly more than $5.80 or $4.50.

Mr. ANTHONY. So your studies indicate that if this bill is passed and bulk rum is allowed into our country duty-free, the $1.57 tax would be removed, which is only about 40 cents at the retail level?

Mr. SOOD. Yes.

Mr. ANTHONY. They are obviously going to be, then, competing in different price markets?

Mr. SOOD. Obviously.

Mr. ANTHONY. And I guess that probably explains the reason that you have only been able to carve out 4 percent of the market, because when you are competing in the premium class, you have to procure a number of purchasers.

Mr. SOOD. I think this example points out another reason; and there are a number of reasons why it is difficult for the Caribbean rums to compete in the U.S. market. One of these is distribution. The large liquor companies in the U.S. market dominate the channels of distribution. These small companies down in the Caribbean have to work through importers, and they have to hope that the importers will represent their interests. These importers are considerably smaller than the larger liquor producers.

An example of this is the Virginia alcoholic beverage stores, where only two foreign rums or two non-U.S. rums were available in the store, and that is throughout the State of Virginia. I think it was Mount Gay and Myers rum. The other Caribbean rums and

rums from other countries simply cannot get into the channels of distribution.

Mr. ANTHONY. I have one final question, Mr. Chairman.

This is for Mr. Wachholz. What is your opinion on the elimination of the tariff on rum so that the Caribbean producers can compete with the Virgin Islands and Puerto Rico? I know Dr. Sood's last answer went to that partially, but I would like to get your opinion on that, in the record.

Mr. WACHHOLZ. Congressman Anthony, I think that is a critical question from WIRSPA's perspective. We have to emphasize that removal of the tariff on rum will not even remotely put Caribbean producers on "all fours" with Puerto Rican producers and those of the U.S. Virgin Islands. This is because there are massive subsidies which—and I think I have not listed them comprehensively, but from the information available to us—insure that no potential harm could ever come to them, even assuming that the Caribbean rums were competing in the same sector of the market, because there is no way that one can compete against 16 cents paid for molasses, with molasses being 50 to 70 percent of the direct cost factors of the production of rum, when the Caribbean producers have to pay world market price.

The world market price is now about 35 to 50 cents. Jim, is that right?

Mr. SOOD. That is right.

Mr. WACHHOLZ. About 35 cents to 50 cents a gallon, and under the subsidy arrangement the Virgin Islands pays 16 cents.

Mr. ANTHONY. If I liked the rum from Barbados, for example the Cockspur brand, and my next-door neighbor liked Bacardi's because they have 84 percent of the market and every time you read a magazine you see the advertisement of this beautiful girl drinking Bacardi rum, then actually I am subsidizing with my tax dollar because of the excise tax of what would be my competitor. That is really what it boils down to, isn't it?

Mr. WACHHOLZ. The subsidies are enormous.

Mr. ANTHONY. Because you have an automatic turnback and this is something that is automatically shipped back to Puerto Rico and the Virgin Islands without going through the annual appropriations process.

Mr. WACHHOLZ. That is correct.

Last year the figures from the Department of the Interior indicate that in fiscal 1982 the molasses subsidy from the Virgin Islands, all coming out of the excise tax rebate on rum, was $1.9 million total to the distillery down there—which is owned by Schenley.

Mr. GIBBONS. $1.9 million for 100 jobs?

Mr. WACHHOLZ. It is not clear. There is a lot of debate on it, but this paper is a little outdated. This memorandum I am citing was directed to the Director, Office of Territorial Affairs, from the Staff Assistant for Economic Development in the Secretary's Office of the U.S. Department of the Interior. The memo writer is Richard W. Miller, dated May 4, 1979. It says, "V.I. rum industries employed an average of 67 people in 1978 with a payroll of $630,000, and estimates that the 1979 payroll at $700,000."

We are taking two different years, but the fiscal year 1982 subsidy on molasses was $1.9 million.

Mr. GIBBONS. You say $1,900,000?

Mr. WACHHOLZ. Right.

Mr. GIBBONS. And 66 people?

Mr. WACHHOLZ. Right. That amounted to a subsidy of 45.5 cents per gallon on 4.2 million gallons of molasses purchased. That subsidy is in addition to the 16 cents that Schenley paid.

Mr. GIBBONS. That comes to $1.9 million to divide up per worker?

Mr. WACHHOLZ. That is a question I wouldn't want to try to answer.

Mr. GIBBONS. We should get our calculator out.

Mr. WACHHOLZ. The other thing we have always been a bit curious about looking at the Department of Interior's figures is why did the Virgin Islands distillery pay 61.5 cents per gallon in 1982 when we know that the average price in 1982 on the world market in molasses is 30 cents. It raises a lot of questions in my mind.

Mr. RANGEL. Mr. Chairman, maybe a lot of these questions could be answered by the fact that you are referring to a U.S. possession with responsibilities to its citizens. Congress elected to determine how we pay for the services that these citizens are receiving. I don't think it was the most equitable way to do it, but it was done through a tax system that clearly is not supposed to be fair, but is supposed to yield back the moneys for these people to govern themselves, to make capital improvement, in lieu of the way we do it for the other states.

Now, we may not like the system, but to talk of Puerto Rico and the Virgin Islands as though we are just talking about them being in competition with some other independent nations, many of which have been associated with England and France, I just don't see how we can think about it as being the same. You are not supposed to like it. You are not supposed to enjoy it, but it is not what we call open competition.

It is certainly not what we refer to as the free market system, and whenever we start talking about subsidies and returning revenues, obviously we are not talking about competition in the free market system. Once we understand that it has never been an open market, and wasn't intended to be we realize that the reason Puerto Rico has 96 percent of the market is because a determination was made by the Congress to let them have it.

The reason why the Virgin Islands enjoy the benefits they do is because decisions were made in the Congress. Now we are trying to be equitable and fair to our friends on the other islands, I think we should, and I support the bill, but wondering how all of these things happen shouldn't shock you. A lot of thought went into it.

Mr. GIBBONS. Let me say I don't disagree with what you say, Mr. Rangel, and I hope we are not appearing that way. I was just wondering, we pay a subsidy of almost $2 million and that comes out—I haven't got my calculator with me—to about $24,000 per job per year. If we just give them the money, they could get another job or just retire. How much do they pay them down there per hour?

Mr. WACHHOLZ. I am sorry, Mr. Chairman, I don't have those figures.

Mr. GIBBONS. Twenty-four thousand dollars per year. Most people in Florida would take the money and just go on a permanent vacation. I don't know why we make rum at that price.

Mr. WACHHOLZ. I think the point, Mr. Chairman, is we are not questioning the situation in the Virgin Islands so much as we are trying to point out that it is pretty difficult for 3 percent of the market to really threaten them, given these subsidies.

Mr. SOOD. If I could add a comment to that. The competitive nature, we have talked about price, and costs, and distribution, and so on. If you just look at the size of these companies, statistics are not available because most of the companies in the Caribbean and some in the U.S. are privately held.

But, if you added up all these little rum companies, Jamaica, Trinidad, Barbados, and so on, the total assets would be less than 1 percent of any of the large liquor producers operating in the United States. This is the level of competition, and this is all I think we are trying to point out here.

Mr. RANGEL. It just didn't come across that way, especially with some of the ads. You look in the paper, you see the pretty girl, she is drinking a Bacardi, and you are paying for the ad. You may be paying twice, you know, and this is a system which the Congress has approved of.

I am just saying that if, like the chairman suggested, we want to find a better way to fulfill our responsibilities to those who fight our wars as citizens, and to those that volunteer when they don't have to, then let's look at them. But to say that we are critical of a very awkward situation only when it comes at a time when we are trying to share some of the wealth with our friends in the Caribbean, and when they believe it may be at their expense, is inappropriate. If the system we have locked into place appears to be in jeopardy, they have every reason to receive assurance from their fellow Americans that they are going to be protected, and not just thrown in the Caribbean Basin as another Caribbean island. That is my only point.

Mr. ANTHONY. I would just like to tell my friend from New York I agree with his analysis. I hope that nothing that I have said indicates that I have less than total support for the concept and for our possessions of Puerto Rico and the Virgin Islands.

To be quite honest with you, when I finally decided last year that I thought the rum provision was very important to the people in the CBI, it put me at odds with two of my good friends and delegates from those areas. I visited with them on numerous occasions, trying to find some middle ground, so that we could have it as a compromise rather than have to go through the entire course of the legislative battle.

Unfortunately, we were just not able to do that. We are presently trying to find that middle ground where both parties can feel that they have been treated fairly by this Congress and cognizant of our responsibilities to all of them concerning the legislation we are trying to pass.

Mr. RANGEL. If the gentleman would yield.

Mr. ANTHONY. I will yield.

Mr. RANGEL. There is no question that when you did form an opinion you reached out to the delegates and representatives, I un-

derstand that even now they want to compromise with the administration. I hope that you understand that there is nothing you have said that I think would offend the citizenry of the possessions.

I just want to point out that we have to explain to the world our contribution to the economic stability of these possessions. It shouldn't be embarrassing to say that we take taxes and give them back and that it is based on the amount of bulk rum we send here and then we get molasses which we subsidize. It is a very awkward process.

I am saying that if we want to intelligently review the way we have treated our possessions, I want to join with you in that effort. I just wonder whether this is the proper forum for representatives of foreign governments to criticize the way Congress has treated its citizens.

That is my only point. You were making sense about the inequity of the system, in which we have people who depend for capital improvement on the amount of bulk rum they send to the United States. To me that is no way to build their city halls, but we determined that is the way to do it.

Mr. ANTHONY. I yield back.

Mr. GIBBONS. Thank you, gentlemen.

Mr. WACHHOLZ. Thank you, Mr. Chairman.

Mr. GIBBONS. We have a panel from the American Iron & Steel Institute, Mr. Tyrrell of the Raritan River Steel Co., Mr. Rowe of the Electronic Industries Association, and from the Florida Citrus Mutual, Mr. McKown.

I will call on you as you are listed on the program.

Mr. Tyrrell first, Mr. Rowe second, and Mr. McKown third.

STATEMENT OF THOMAS N. TYRRELL, VICE PRESIDENT, MARKETING, RARITAN RIVER STEEL CO., PERTH AMBOY, N.J., REPRESENTING THE AMERICAN IRON & STEEL INSTITUTE

Mr. TYRRELL. Thank you.

Mr. Chairman and members of the committee, my name is Thomas Tyrrell and I am the vice president of marketing for Raritan River Steel Co., located in Perth Amboy, N.J.

Prior to coming to Raritan 5 years ago, I had spent 11 years with the Bethlehem Steel Corp. I am here today representing both the American Iron & Steel Institute, as well as the interests of my own company, regarding the Caribbean Basin legislation

The AISI is the principal trade association representing the iron and steel industry. Its 61 domestic member companies account for about 87 percent of the raw steel produced in the United States.

Raritan River Steel is the newest rod mill in North America, starting commercial operation on March 28, 1980. We produce a single product, wire rod, in multiple sizes and grades, which is sold to various manufacturers of wire and wire products.

They, in turn, process the rod into several hundred thousand different applications, ranging from fence and nails to springs, soap pads, and reinforcement for tires.

We are a world-class mill, designed to be competitive anywhere and as modern and efficient as any mill in the world. Through reciprocal technological agreements with world mill builders and var-

ious European and Japanese mills, we have installed virtually every industry advancement currently available and continue to do so on an ongoing basis.

We have located our plant on tidewater adjacent to our raw material supply, the world's best scrap market, both in quality and quantity.

Prior to our startup, 90 percent of the scrap from the New York/New Jersey area was exported, primarily to European countries, and with it the energy used to make the steel from which the scrap was generated.

We are a nonunion plant, quite unique in the steel industry, especially in the heavily industrialized northeast. We have succeeded in maintaining this posture because of a well-planned, highly effective employee communications program.

We employ 495 people and will produce 550,000 net tons this year, averaging over 1,100 net tons per man, the highest of any steel mill in North America, and among the top three in the world.

When we reach our capacity of 650,000 net tons, we will average nearly 1,300 net tons per man per year.

Our average of 1.6 an hour per ton is also the best in North America and among the best in the world.

As a comparison, the average for all steel products at most domestic integrated mills is 10 man-hours per ton and the next most efficient mini or market mill averages around 2.2 man-hours per ton.

We currently market in 36 States, employing only five sales people, which is unparalleled in the steel industry.

After hearing this data, you are probably asking yourself, why is he here? Well, the reason is that over the past several years, various problems caused by heavy increases of imported steel products, in our case rods, have taken a severe toll on our company, greatly inhibiting further investment in our facilities, required to help increase productivity and enhance quality.

If these imports have hurt a superefficient mill like Raritan, imagine what they have done to mills built some years earlier, mills struggling to earn reinvestment capital to enable their facilities to become more competitive in the world market.

The well-publicized effects have been devastating.

Fortunately, in the past year, Government has listened to the steel companies seeking enforcement of fair-trade practices and has effected some relief through various antidumping, countervailing duty, and quantitative measures regarding various countries blatantly exporting their unemployment to the United States.

While, as an industry, we welcome such steps, we are concerned that the Caribbean Basin Initiative, as it now stands, could have a very negative impact on trade in steel products.

Extending duty-free status under CBI, or any similar plan, would be inconsistent with administration policy, which is to revitalize the domestic steel industry.

In President Reagan's announcement and the Senate version of the legislation announced on February 22, certain products, including textiles, apparel, luggage, tuna, petroleum products, etc., were exempted for various reasons.

We believe that the domestic steel industry is clearly at least as import sensitive an industry as the aforementioned products and is therefore requesting that existing tariffs not be lowered or eliminated, as presently proposed under the CBI.

Currently, many lesser developed countries are operating or building state-of-the-art steel mills. It seems to be the in thing to do.

Once an LDC develops capital by the promotion of petroleum and/or basic raw material resources, it appears that a steelmaking facility is the next logical step.

In fact, a recent U.S. News & World Report article estimated that 50 years from today, LDC's will represent 35 percent of the world's steel manufacturing capacity.

Our concern is not with the fact they are being built, but that, as world-class, low-cost facilities, they are not in need of additional benefits to compete effectively in a world market. They can, in fact, find ways to be more than competitive on their own.

One clear example of the above is the Government-owned Iron & Steel Co. of Trinidad & Tobago—Iscott. Iscott initially planned to export as much as one-half of its 600,000 net tons annual capacity, when reached, to North American markets.

This plant produces wire rod from a brand new, internationally competitive production facility, very similar to Raritan's.

The goal of 300,000 net tons annual exports to North American was set prior to CBI's introduction. If passed, this number could climb even higher.

During tough economic times, some foreign mills will stop at nothing to participate in the attractive U.S. marketplace. Iscott can be used as an example here, as well.

On September 30, 1982, an antidumping complaint was filed against wire rod imports from Trinidad and Tobago. On April 14, 1983, the Department of Commerce preliminarily determined that wire rod from this location was being sold at less than fair market value and estimated the dumping margins to be 14.2 percent. Final determination from the Department of Commerce is due by July 12.

Additionally, on May 16, 1983, a writ was filed with the Department of Commerce charging that Iscott represented unfair competition, and that the company's operations were wholly dependent on subsidies granted by that Caribbean State's government.

This writ sought the imposition of a countervailing duty of not less than 402 percent on Iscott's steel imports into the United States.

The charges were that exports are being subsidized through a variety of schemes, including loans obtained at preferential rates, fuel at subsidized rates and import duty relief on machinery and equipment, to name a few of the allegations.

This matter is currently being reviewed and preliminary determination is due from Commerce by August 10, 1983.

So, you can see from these examples that CBI legislation, not exempting steel products, would give an open door to the U.S. market to a mill that has already caused serious problems in our industry by ignoring existing import trade laws.

It would also entice other countries to build Caribbean steel plants, helping to justify them on cheap access to the U.S. marketplace. Additionally, mills could also be financed by countries other than the mill's home country.

Another area of great concern to the U.S. steel industry and also to our industry's customers that further process steel products, is that the CBI would create a loophole by which steel mill products produced outside the basin could be fabricated in the basin and shipped into the United States, duty free.

As it now stands in the proposal, duty-free treatment for CBI countries requires 35 percent value to be added in the basin.

As a result, it is conceivable that major steel exporting countries could circumvent not only tariffs, but also quotas and antidumping or countervailing duties by processing their own steel products in the CB.

Moreover, the true level of steel exports and resultant injury caused by the actual exporter could be masked. Almost any product now manufactured by our own customers could fall into this category and a similar situation would pertain to most steel products requiring further process or fabrication.

Many of these products, such as wire rope, nails, and industrial fasteners, are already being seriously injured by unfair trade practices and fabrication in the CB, using low cost fabricating operations, could easily be accomplished and add to the export dilemma already faced by these and other steel processing industries.

In summary, it is obvious from the CBI proposal that import sensitivity must be a special criterion for exemption from the duty-free provisions of the bill. Many products have already been exempted. This was done despite the fact that the CBI proposal does not abrogate any of the U.S. trade laws.

In summary, we believe that steel products are demonstrably as import sensitive as the products already given an exemption, if not more so, and, as such, should be added to that list.

Recently Congressman Gephardt has introduced an alternative, H.R. 2819, to the administration's Caribbean Basin Initiative.

Certain provisions of the Gephardt alternative would address many of the problems in my presentation while focusing the benefits of the legislation on the Caribbean nations themselves, rather than on those who would exploit them to gain noncompetitive, discriminatory access to the U.S. market.

We, as an industry, and my company in particular, feel this alternative would help prevent further injury to the domestic steel industry.

One final point. We also have a concern that granting duty-free treatment to Caribbean countries will result in extending the injury test under countervailing duty legislation to those countries that are GATT members, even though they haven't signed subsidy codes or undertaken comparable commitments.

We feel this contravenes the intention of the 1979 act. We will submit a supplementary statement during the next day or two.

Thank you.

[The statement follows:]

SUPPLEMENTAL STATEMENT OF THOMAS N. TYRRELL, RARITAN RIVER STEEL CO.

My name is Thomas N. Tyrrell and I am Vice President of Marketing of Raritan River Steel Company of Perth Amboy, New Jersey. In my testimony before the Committee last week, I urged that steel be added to the list of import sensitive products that would be excluded from duty free treatment under the Caribbean Basin Economic Recovery Act ("CBERA"). I submit this supplemental statement to request that in the event that steel is not added to the list of import sensitive products, that at a minimum the proposed CBERA legislation be amended to provide that duty free treatment shall not obligate the United States to require a determination of injury in countervailing duty cases pursuant to § 303 of the Tariff Act of 1930, as amended, if such a test would not otherwise be required.

I. BACKGROUND AND HISTORY OF THE INJURY TEST IN COUNTERVAILING DUTY CASES

In 1974, the countervailing duty law was amended to provide that, contrary to the practice that had been in effect since 1897, the United States would require an injury test in countervailing duty cases but only where (i) the imported article was duty free and (ii) an injury test was otherwise required by the international obligations of the United States (i.e., for duty-free goods from GATT-member countries). 19 U.S.C. § 1303(a)(2). Then, in 1979, the countervailing duty law was further amended to require an injury test in all cases involving articles imported from countries that had either signed the Subsidies Code (and were members of GATT) or alternatively had entered into a bilateral agreement with the United States requiring that the contracting country accept obligations substantially equivalent to those that would apply had it signed the Subsidies Code. 19 U.S.C. § 1671.

Congress assumed in 1979 that countries would be motivated to sign the Subsidies Code (or a comparable bilateral agreement) in order to ensure that their products would benefit from an injury test in countervailing duty cases, even though the Code (and bilateral agreements) established internationally accepted limitations on the use of subsidies. Governments would agree to this discipline over their subsidy programs because the injury test would be in their national interest. Put another way, the injury test was withheld from non-signatories because they had not accepted internationally agreed subsidy rules and to induce them to accept such discipline.

The CBERA would unfortunately disrupt this careful Congressional approach to extending the injury test only to countries that have accepted Code obligations. This is because by affording Caribbean Basin beneficiary countries duty-free treatment for their non-excluded exports to the United States, those countries that are members of GATT would gain the benefit of the injury test with no obligation to either sign the Code or a bilateral agreement with equivalent obligations. In other words, CBERA would have, we believe, the undesired and unintended effect of essentially revoking the carefully structured incentive in the 1979 Act by extending to CBERA beneficiary countries the injury test without requiring accession to the Code or an equivalent bilateral arrangement. Ironically, this would, in fact, have the reverse effect: no longer would there be any reason for a CBERA beneficiary country to agree to the Code's provisions or adopt a bilateral agreement on subsidies since they already would benefit from the principal inducement to acceptance of these international obligations.

II. PROPOSED REMEDY

Congress should amend the CBERA to ensure that beneficiary countries that are members of GATT would not automatically become beneficiaries of the injury test under the countervailing duty law. After all, the purpose of withholding the injury test from nonsignatories is to induce them to accept the obligations of the international Codes.

As we have emphasized, however, without amendment, the CBERA will have the opposite effect. It will encourage countries not to sign the Code or an equivalent agreement because the inducement to do so—the injury test under the countervailing duty law—will no longer be present. This is an ironic result that Congress can hardly expect or desire.

We submit, therefore, that a new section should be adopted which would read as follows: "No product of a beneficiary country shall be deemed 'free of duty' for purposes of § 303(a)(2) of the Tariff Act of 1930 (19 U.S.C. § 1303) solely by reason of the application of this title."

By adoption of this simple amendment, Congress will ensure that beneficiary Caribbean countries will not be granted the injury test solely by reason of this Title and without regard to the requirements of the 1979 Act that impose the obligation of

signing the Subsidies Code or an equivalent agreement before the injury test can be made available. In short, this amendment will ensure that the purposes of the 1979 Act are not eviscerated unintentionally.

III. POTENTIAL DISCRIMINATION ABSENT AMENDMENT

It should also be recognized that failure to adopt this amendment would put the United States in a quandary vis-a-vis non-Caribbean countries. For example, the products of a country in Africa that has signed the GATT but not the Subsidies Code, would not have the benefit of an injury test in countervailing duty cases. On the other hand, a Caribbean country which had signed GATT but not the Subsidies Code nor a bilateral agreement would, by virtue of the CBERA (unless amended), be the beneficiary of an injury test. As a result, the United States would violate its obligation (under the most favored nation clause) to the African nation by extending, in the context of a regional agreement, the injury test to the Caribbean country. To avoid this, the law should provide that Caribbean nations must accept Code obligations to benefit from the injury test in countervailing duty cases.

Mr. GIBBONS. Thank you.
All right, Mr. Rowe.

STATEMENT OF HERBERT J. ROWE, GROUP VICE PRESIDENT, ELECTRONIC INDUSTRIES ASSOCIATION

Mr. ROWE. Mr. Chairman, my name is Herbert Rowe, group vice president of the Electronics Association. We appreciate the opportunity to present to you today some of our views on the CBI legislation.

The Components Group of the Electronic Industries Association endorses this legislation with the exception that it should be modified to insure that no more than 50 percent of the value of the eligible articles originates in any one highly industrialized nation other than the United States.

In the 5-year period from 1978 through 1982, imports of electronic products into the United States increased from $10 billion to $21 billion, 110 percent. At the same time, exports rose only 84 percent from $13 billion to $24 billion.

In 1981 the electronic trade surplus was $3.8 billion. Last year it declined by 16 percent to $3.2 billion.

The fact that imports of electronic products are increasing at a faster rate than exports should be more than disquieting.

The Caribbean Basin Economic Recovery Act would abandon GSP's process for designating specific articles as eligible for duty-free treatment. Almost all products shipped from Caribbean nations would be eligible for duty-free entry until some injured U.S. party succeeded in a safeguard action. This would result in exposing many import-sensitive industries to a flood of imported goods, and to the consequent threat of serious injury. To endanger so many manufacturers at a time when the U.S. economy is trying to regain strength would be most unwise.

The U.S. economy cannot afford to absorb any more duty-free imports unless we couple this benevolence with measures insuring that the primary beneficiaries are Caribbean nations, not highly industrialized nations. Experience under GSP has taught us the manufactured products of less developed countries contain, in very large measure, parts and materials supplied by highly industrialized countries. These components must be imported into the beneficiary countries to enable them to assemble articles which are salable in the United States.

So, on the one hand, it must be recognized that industrialized countries can and do benefit from GSP, and would benefit from the Caribbean Economic Recovery Act, also.

On the other hand, the essential thrust of both of these laws should be to assure that developing nations derive the benefit, not highly industrialized nations other than the United States.

Substantial value must be added in the beneficiary country or else no improvement in the Caribbean standard of living will result.

We oppose the language of the bill which would allow the major portion of the content of manufactured products to be supplied by highly industrialized nations other than the United States.

There should be some incentive to obtain at least a portion of those parts and materials from U.S. sources, especially if the resultant assemblies are destined for our marketplace and if the United States is expected to admit them without duty.

We strenuously recommend that the bill's language be changed to insure that no more than 50 percent of the contents of an eligible article comes from another highly industrialized country. Under the present provisions of the bill, as much as 65 percent of the content could actually originate in a single highly industrialized third country.

This legislation should encourage the development of the Caribbean Basin countries and not encourage the use of the intended beneficiaries as little more than duty-free conduits to the United States by our competitors in major trading nations.

In its present form, H.R. 2769 could be used improperly by industrialized countries, thereby undercutting the ability of the Caribbean countries to develop their own industrial base infrastructure.

I would like to note also that previously, during the testimony of the AFL–CIO, it was noted that there are certain import-sensitive products which are excluded from GSP treatment, and at that time electronic products were listed as one of those.

I would like to call the chairman's attention to the fact that that is not absolutely correct. There are many electronic products which are on the GSP list. Almost all components are imported at the present time from the major beneficiaries of GSP, Hong Kong, Taiwan, Brazil, Mexico, and they come in duty free. The CBI would be another point of entry for that type of product.

Thank you, sir.

Mr. GIBBONS. Thank you.

[The prepared statement follows:]

STATEMENT OF THE COMPONENTS GROUP OF THE ELECTRONIC INDUSTRIES ASSOCIATION (EIA)

The Caribbean Basin Economic Recovery Act H.R. 2769 provides the opportunity for duty-free entry to the U.S. market of products from 28 Caribbean countries for a period of 12 years. The Act is built on the concept of improving economic conditions in Caribbean nations by absorbing their output (of more and different products than they have traditionally produced) in the U.S. marketplace. The Components Group of the Electronic Industries Association (EIA) endorses this legislation with the exception that it should be modified to insure that no more than 50 percent of the value of an eligible article originates in any one highly industrialized nation (other than the United States).

Four of EIA's Divisions comprise the Components Group. The Tube Division is composed of United States manufacturers of electronic tubes; members of the Parts

Division manufacture various passive and electromechanical electronic components; members of the Solid State Products Division manufacture semiconductor devices and electronic chips; the Distributor Products Division's members are manufacturers of components who sell their products through electronic distributors. Together, the Components Group represents over 250 large and small manufacturers.

In the 5-year period from 1978 through 1982, imports of electronic products into the U.S.A. increased from $10 billion to $21 billion or by 110 percent, while exports rose only 84 percent, from $13 billion to $24 billion. In 1981, the electronic trade surplus was $3.8 billion; last year it declined by 16 percent, to $3.2 billion.

The fact demonstrated above, namely that imports of electronic products are increasing at a faster rate than exports, should be more than disquieting. The trend for other "high tech" industries is much the same. Moreover, massive imports continue to erode our "basic" industries at an alarming rate. This broad impact of importation, let alone the duty-free portion of it, has resulted in the destabilization of our industrial economy.

We note that the Caribbean Basin Economic Recovery Act would abandon GSP's process for designating specific articles as eligible for duty-free treatment. Under its provisions, almost all products shipped from Caribbean nations would be eligible for duty-free entry, until some injured U.S. party succeeded in a "safeguard" action. This would result in exposing many import-sensitive industries to a flood of imported goods and to the consequent threat of serious injury. To endanger so many manufacturers, at a time when the U.S. economy is trying to regain strength, would be most unwise.

It is our position that the United States economy cannot afford to absorb any more duty-free imports unless we couple this benevolence with measures insuring that the primary beneficiaries are Caribbean nations, not highly industrialized nations.

Experience under the U.S. Generalized System of Preferences (GSP) has taught us that the manufactured products of less developed countries contain, in very large measure, parts and materials supplied by highly industrialized countries. These components must be imported into the beneficiary countries to enable them to assemble articles which are saleable in the United States.

So, on the one hand, it must be recognized that industrialized countries can and do benefit from GSP, and would benefit from the Caribbean Economic Recovery Act, too. On the other hand, the essential thrust of both laws should be to assure that developing countries derive the greatest benefit, not highly industrialized nations other than the United States.

We support the provisions in the Act which endeavor to prevent the simple transshipment of manufactured goods. Substantial value must be added in a beneficiary country, or else no improvement in the Caribbean standard-of-living will result. It is only through meaningful work, i.e., processing or assembly operations, that those countries' employment will increase and their populace acquire skills.

We oppose the language of the bill which would allow the major portion of the content of manufactured products to be supplied by highly industrialized nations other than the United States. It is appropriate that there should be some incentive to obtain at least a portion of those parts and materials from U.S. sources—especially if the resultant assemblies are destined for our marketplace, and if the United States is expected to admit them without the payment of duty. Therefore, we strenuously recommend that the bill's language be changed to insure that no more than 50 percent of the content of an eligible article comes from another highly industrialized country.

Under the present provisions of the bill, as much as 65 percent of the content could actually originate in a single, highly industrialized third country. Surely, this legislation is meant to encourage the development of the Caribbean Basin countries and not encourage the use of the intended beneficiaries as little more than duty-free conduits to the United States by our competitors in major trading nations.

It is imperative that provisions be added to strengthen the proposed law: in its present form, H.R. 2769 could be used improperly by industrialized countries, thereby undercutting the ability of Caribbean countries to develop their industrial base and infrastructure.

Mr. GIBBONS. Mr. McKown.

STATEMENT OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FLORIDA CITRUS MUTUAL

Mr. McKOWN. Good afternoon, Mr. Chairman and members of the committee. I thank you for giving me an opportunity to appear before your committee again on CBI.

I have submitted a statement for the record and I will summarize.

I am Bobby F. McKown and I am the executive vice president of Florida Citrus Mutual.

FCM is a voluntary cooperative trade association with more than 13,379 active Florida citrus growers. The position we express today is supported by the Florida State Department of Citrus, the Florida Citrus Packers, and the Florida Citrus Processors Association.

We support the Caribbean Basin Initiative as developed and recommended by President Reagan and as amended by the U.S. House of Representatives and further amended by the Senate Committee on Finance. The economic assistance which would be provided by this program for several small developing nations in Central America, the Caribbean, and northern South America, is certainly warranted.

However, we feel that any program the Congress approves should take account of the importance of the citrus industry to the Florida and U.S. economy, and of the price and import-sensitivity of fresh citrus and citrus products.

The Florida citrus industry is the second largest industry in the State, employing some 86,000 people directly and another 87,000 indirectly.

We have developed our own marketing techniques and shared our growing and processing technology with other citrus-producing countries.

Recently, while we have been confronted with numerous tariff and nontariff barriers abroad, we have also been faced with increasing import competition in the domestic markets created by the Florida industries.

For every dollar in revenue lost in the production of citrus, the loss to Florida's economy is $3.06. Imports of citrus juices have expanded phenomenally in the last 5 years. Most of these imports are from countries which need not meet the rigid environmental and USDA standards applied in the United States, which receive the benefit of Government subsidization, and which have remained highly competitive in the U.S. market, even on a duty-paid basis.

The current tariff structure permits the importation of citrus products when needed, and has not deterred the expansion of foreign citrus industries. Data are presented in our formal submission which demonstrate this fact.

We urge that citrus and citrus products be excluded from any duty-free or reduced tariff treatment under the Caribbean Basin program. If, however, citrus is included in the legislation, FCM feels that certain safeguards to the viability of the industry are essential.

One, Cuba should be deleted from section 102 of the bill as a potential beneficiary of the CBI. While this country would be ineligible for beneficiary treatment under section 102(b) (1) or (2), we be-

lieve that the mature citrus industry of Cuba represents approximately 500,000 acres, and we further understand upwards of 500,000 additional acres have been and/or are being planted to citrus in Cuba.

Ultimately this gigantic increase in acreage would pose a serious threat to our economy if duty-free treatment were granted;

Two, the USDA Animal and Plant Health Inspection Service should participate in the implementation of any CBI program as it applies to citrus. Many Caribbean countries have serious problems with fruit flies and citrus canker, and expanded imports will greatly increase the threat of infestation in the United States and, in fact, within the past 2 weeks we have had a positive detection of the Mediterranean fruit fly in Florida adjacent to the Miami International Airport;

Three, country of origin requirements must be carefully enforced to assure that Caribbean countries do not become a conduit for citrus shipments from other developed producers, such as Brazil and Surinam.

Origin certification is necessary. We strongly support section 103(a)(2) of the bill, which was approved by the House of Representatives and by the U.S. Customs Service during the last session of Congress, and which would disallow duty-free treatment for products which are the result of simple combining or packaging operations, or mere dilution with water or another substance which do not materially alter the characteristics of the article.

We believe this will avoid many transshipment or simple manipulation problems which might otherwise develop in circumvention of the intent of the CBI;

Four, we also support the fast-track mechanism in section 103(f) for investigation of injury caused by increased imports of perishable products from Basin countries. However, we urge that this mechanism be expanded beyond fresh citrus to cover processed citrus products as well, including citrus juices, peels and oils.

The damaging impact of increased, low-priced citrus products, particularly orange juice, can be felt in U.S. markets almost immediately.

Therefore, an abbreviated review process is necessary to make sure that the citrus juice market, already under intense price pressure from Brazilian imports and recent Florida freezes, is not disrupted by Caribbean imports.

We respectfully request that the committee incorporate the fast-track mechanism which was approved and marked up by the Senate Committee on Finance.

Thank you for affording Florida Citrus Mutual the opportunity to present its views and support of the CBI bill. I would be pleased to respond to any questions the committee may have.

[The statement of Mr. McKown follows:]

STATEMENT OF BOBBY F. MCKOWN, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FLORIDA CITRUS MUTUAL

Mr. Chairman and members of the Committee, my name is Bobby F. McKown, Executive Vice President and General Manager of Florida Citrus Mutual. Appearing with me are Jim Lundquist and Matthew McGrath, of the firm Barnes, Richardson & Colburn, counsel to FCM. Florida Citrus Mutual is a voluntary cooperative trade association whose membership consists of more than 13,379 active Florida

citrus growers, with headquarters at Lakeland, Florida. The State of Florida, Department of Citrus, the Florida Citrus Packers and the Florida Citrus Processors Association support the position as set forth in this statement; a brief discription of these organizations is attached.

We support the Caribbean Basin Initiative as developed and recommended by President Reagan, and as amended by the House of Representatives and further amended by the Senate Committee on Finance. It is understood that the Basin includes some two dozen small developing nations in Central America, the Caribbean and northern South America. Florida Citrus Mutual and the Florida citrus industry sincerely believe that certain assistance might be warranted for those specific nations; however, it is essential to this industry's well-being that certain safeguards be built into any plan which the Congress approves. Citrus has been judged to be import sensitive by the U.S. Government and international trade councils, and it has continued to be reaffirmed by the U.S. International Trade Commission, the Trade Policy Staff Committee, and in connection with the Kennedy Round of GATT negotiations.

The Florida citrus industry is the second largest industry in the State of Florida and provides significant stability to its economy. Florida's climate is similar to that of the countries proposed to be covered by the Caribbean Basin Initiative. Should fresh citrus and processed citrus products be allowed to enter under a reduced tariff or duty free, we believe that Florida and California could be more adversely impacted than other states because of their tropical agriculture. For every $1.00 in revenue lost in the production of citrus, the loss to Florida's economy would be $3.06 based on a multiplier developed by the University of Florida.

We know that many of the Caribbean Basin countries have serious problems with disease and insects, such as Caribbean fruit fly, Mexican and Mediterranean fruit flies, citrus canker, etc. which could be devastating to the Florida citrus industry, particularly if expanded imports increase our exposure to infestations. Increased shipments coming into Florida and other parts of the United States from those countries would substantially increase our grower members' risk of infestation by those insects and/or the likelihood of contracting some of those dreaded diseases. Florida Citrus Mutual respectfully requests that the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture be invited to participate in the formulation of any possible implementation so that proper inspection safeguards would be included. Any increase in shipments should result in more thorough Customs and USDA inspection at ports of entry, rather than the decreased inspection promoted by the Administration's red door/green door policy. Adequate prevention is the best cure.

American farm income has continued to decline during the past four years and 1983 does not offer any hope for a turnaround in this regard. We believe that precautions must be taken to ensure that these countries do not rapidly ship large quantities of fresh citrus fruits and processed citrus products into the United States, thereby disrupting our domestic and international markets. For every one million gallon increase in imports, total revenue for the Florida citrus industry would be reduced by $4 million at the FOB level. These countries do not have the stringent government regulations of the fresh fruit maturity standards, or USDA grade standards for fresh citrus and processed citrus products, which regulate the U.S. industry. Nor are they subjected to the EPA pesticide limitations with which our growers must comply.

We believe that the CBI countries do not need duty free entry for citrus products to the U.S. market, since their costs are considerably lower than ours, and even on a duty-paid basis, they still maintain a competitive advantage. Under such circumstances, we feel that the developmental purposes of the Initiative would not be served by elimination of the tariff.

Florida Citrus Mutual advances its belief that the Congress should build in adequate safeguards to prevent Caribbean beneficiary countries from being used as a conduit by some of their neighbors to the south and/or other parts of the citrus producing world. For example, Brazil or Surinam could circumvent the U.S. tariff by exporting through certain countries within the Caribbean Basin, thereby gaining duty-free access to U.S. markets. We suggest that a certificate of origin be required in order to negate this transshipment possibility. In addition, we strongly support section 103(a)(2) of the bill, which was added to the CBI bill during the prior session of Congress and supported by the U.S. Customs Service. Under this provision, duty-free treatment would be disallowed for products which are the result of simple combining or packaging operations, or mere dilution with water or another substance which does not materially alter the characteristics of the article. This provision

would assure that products from the CBI beneficiaries are truly indigenous in origin.

It is our understanding that certain products and goods are exempt from the proposed Caribbean Basin Initiative and we respectfully request that fresh citrus fruits, and processed citrus products (concentrated and not concentrated), sections and salads and essential oils be exempt, as they are very sensitive to import competition. If, however, they are not exempted from the Initiative, we urgently request that any agreement the United States consummates with these countries should be based on two-way trade. If we are going to open up U.S. borders to Caribbean suppliers of citrus, these countries should be required to open their borders to us. This is and has not been true of most of the past trade agreements.

We strongly believe and respectfully request that the U.S. tariff structure for all citrus and citrus products should remain in place and be excepted from any bilateral or multilateral negotiations, treaty or other U.S. government initiatives in order that we as an industry can continue our job of producing U.S. citrus and citrus products at a reasonable price for the consumer. The current tariff structure is performing and performing well.

The U.S. tariff rate on citrus juices, not concentrated, is 20 cents per single strength gallon. The duty on frozen concentrated orange juice is 35 cents per equivalent single strength gallon. These tariff rates have not prevented imports from coming into this country when needed. Brazil and Mexcio are the largest suppliers; however, Belize and other smaller citrus producing countries within the Basin have also shipped limited quantities into the United States, tariff paid, without adverse impact upon them or detriment to their development. I call your attention to the fact that imports of citrus juices (not concentrated) have increased substantially since 1977, as follows: 1978: 148,099 gallons (single strength); 1979: 221,796 gallons (single strength); 1980: 1,008,211 gallons (single strength); and 1981: 10,096,688 gallons (single strength).

The value of those same imports in dollars has increased from $547,081 in 1978 to over $16.6 million in 1981, according to U.S. Department of Commerce statistics.

Imports of frozen concentrated orange juice have also shown dramatic increases; for example: in 1982 there were 396.1 million gallons (single strength equivalent) as compared to 31.4 million gallons (single strength equivalent) in 1976, all tariff paid.

These data vividly point out that imports, duty-paid, of orange juice and orange concentrate coming into the United States in large quantities are not being deterred by the U.S. tariff. More importantly, the tariff structure is certainly not causing any adverse economic impact upon the U.S. consumer. Research indicates that grapefruit juice prices in real terms have declined. Orange juice (concentrate, chilled and canned) real term prices have also declined relative to the price of all other consumer items. These real term price declines have occurred even though Florida encountered a number of severe freezes in 1977, 1980, 1981 and 1982. For example, in 1971–72 the frozen concentrated orange juice price was $1.88 per dozen 6 oz. cans, and in real terms the 1981–82 price was only $1.71 per dozen 6 oz. cans.

We believe it important to recognize that a large number of processed products constitute a closely related group of citrus articles, all of which are essential food products for human consumption. This closely related group of processed citrus products is highly important to our industry and makes up a major segment of our citrus industry's products.

Frozen concentrated orange juice is being used more and more in other orange juice products because of the economics of transportation, technological advances, improved processing techniques and improved distribution of our products in the U.S. markets.

Any reduction in our current rate of duty, and certainly allowing duty-free entry, would adversely impact upon the economic stability of our industry. A reduction in tariff, or the provision of duty-free or preferential treatment, would further increase citrus supplies and destructively reduce citrus prices in the short term. In the long run, lowered tariffs on citrus would result in curtailed Florida production because of unfavorable cost-price relationships, the ultimate outcome being reductions in citrus-related employment.

Currently, average prices are only 28 percent of parity in the case of grapefruit; and 66 percent of parity for oranges, according to recent USDA Agricultural Prices Reports.

The long-term impact on the U.S. consumer, however, would be increased prices resulting from reduced Florida supply-OJ OPEC.

We also know that no foreign supplier's quality control program equates to our continuous Federai-State inspection which our industry has so strenuously followed

in order to maintain and insure U.S. consumers' confidence in Florida processed citrus products.

Therefore, the U.S. consumer, after gaining reduced prices for a short term period, would subsequently endure high prices for lower quality for a relatively long period.

It takes a long time—25 years—for a citrus tree to reach maximum production. Obviously, once a transition begins, an immediate reversal is not possible.

It should be pointed out that our industry is a free enterprise industry. It is an industry whose growers over the last ten years have invested almost $300 million of their own money to create and develop and expand our U.S. domestic and export markets, thereby contributing positively to our balance payments. Today, we are fighting tariff barriers and value-added taxes in certain foreign countries which are deterrents to our growth opportunities abroad. We ask your consideration and assistance in this area, and point out that this situation should also be borne in mind.

Our industry is not price-supported or government-subsidized. We are an industry that has developed its own marketing techniques and improved its own processing techniques; an industry which has shared its technology with other citrus producing countries; an industry which represents a strong base to the overall economy of our state as well as our country. We employ some 86,000 people directly. Indirectly, we create another 87,000 jobs within our state. The Florida and U.S. citrus industry is labor intensive; production is increased through distribution.

The foreign supplier, including the Caribbean Basin countries which wish to move into this market created by our growers, generally enjoy a cost of production advantage, due primarily to lower wage rates and fewer governmental requirements which protect the consumer and the environment. Additionally, foreign government subsidies for exports from many other citrus-producing countries are quite liberal.

I respectfully request that you particularly review one page of highlights (as reproduced from a circular of the USDA Foreign Agriculture Service, February 1980 report) appended to this Statement, regarding Mexican citrus producers. Particularly interesting is the headline of the story: "Mexican Producers Look To U.S. Market to Absorb Bigger Output." The first paragraph states, "Mexico's citrus industry—already largely dependent on the U.S. market for much of its export sales—is increasing production and is looking to the United States to absorb much of its expanded output, both fresh and processed."

The article further states: "Because of a belief that U.S. orange juice demand will remain strong and Mexican orange production will climb, Mexican orange juice processors are increasing the number of processing plants from the existing nine—six of which produce juice concentrate—to 15 by 1981-82." The additional plants will in effect enable the industry to double its overall juice processing and evaporation capacity. Yes, we recognize that Mexico is supporting the Caribbean Basin Initiative, but we have strong reason to believe that they, too, will soon petition for preferential treatment.

To ask us to share a market duty-free which we have developed with Florida growers' money, with other citrus producing countries who already have significant competitive advantages, is asking and inviting a viable U.S. industry to compete at an unfair disadvantage. We believe that the magnitude of the Caribbean proposal to reduce the tariff on Florida citrus fruit and citrus products is very serious.

We have seen another country, Brazil, build entire government-subsidized export industry in response to a Florida freeze. We have seen them build an industry that is now approaching the size of ours, yet utilizes none of its products for home consumption. Brazilian frozen concentrated orange juice is not consumed in any quantity in Brazil, yet they are producing almost as much processed citrus as we in the United States. Their entire industry is built for export purposes, and it is built to move into our already grower-developed markets, using unfair competitive advantages which we have already presented.

Florida Citrus Mutual respectfully requests that the country of Cuba be deleted as a potential participant in the CBI inasmuch as Cuba is a mature citrus producing entity. It is our understanding that they currently have approximately 500,000 acres of citrus and I further understand they have and/or are planting an equal number of acres. As a communist country, Cuba would be exempt under section 102(b)(1) or (2) of the current proposal; however, we recommend that notwithstanding this provision, a mature citrus producing industry of the acreage magnitude of Cuba should be excluded from the list of potential beneficiary countries, in section 102(b). The Senate Committee on Finance has deleted Cuba and we respectfully ask your committee to also delete Cuba.

Additionally, we strongly encourage that an additional safety mechanism be provided to the U.S. citrus industry whereby accelerated action would be undertaken

by the U.S. Government should duty-free imports through the CBI program partially or potentially injure the domestic industry. We support the fast-track mechanism set forth in section 103(f), but we urge that it be expanded to cover citrus products, as well as fresh citrus, and include citrus juices (TSUS 165.30 and 165.35), orange peel (TSUS 152.14) and orange and grapefruit oils (TSUS 452.44 and 452.28). We respectfully request that the Ways and Means Committee incorporate the Senate language as marked up in S.B. 544.

In summary, Florida citrus products are very sensitive to import competition at home and export competition abroad. Reduction of the U.S. tariff would impact negatively on U.S. consumers, citrus processors, citrus packers and citrus growers.

Safeguards must be put in place to prevent the CBI countries from being used as a conduit for others. If any trade liberalization should be negotiated between this country and citrus producing countries of the Caribbean Basin, our government should recognize and take into account those citrus items that are price sensitive and they should not be included in the final proposal.

We sincerely request that this committee find, after reviewing our statement, that citrus fruit and citrus products should be exempted from any tariff reduction during the course of any international trade negotiations and development of the Caribbean Basin Initiative legislation. We believe that we have amply supplied sufficient justification with supporting data for this decision.

Thank you for affording Florida Citrus Mutual an opportunity to present its statement. If you have need for any additional data, we stand ready to supply same, and I will be happy to answer any questions you may have.

FLORIDA CITRUS MUTUAL, LAKELAND, FLA.

Florida Citrus Mutual is now in its 35th year as a Lakeland-based service and informational entity for more than 13,379 citrus grower members banded together as a voluntary, private, nonprofit organization.

Its operations cover a broad spectrum of activities, all interrelated and with one purpose in mind—representation of the best interests of grower-members.

One of Mutual's main information services is daily market information upon which the grower can make his decisions concerning the marketing of his fruit. Along with market information, routine activities range from consumer demand studies, to efforts in seeing the development of the best possible advertising programs, improvement of quality of all citrus products, development of new products, maintenance of an adequate tariff structure, seeking standards of identity for citrus products, taking a direct hand in research and development of a workable mechanical harvesting system, achieving a theft and vandalism protection program and serving the growers' needs in such areas as pollution, taxation, water management, property rights, and also supporting with grower funds development of new markets for citrus products.

Basically, Florida Citrus Mutual deals in all those forces brought into play in production, distribution and marketing of citrus and citrus products.

Florida Citrus Mutual is governed by a 21-member Board of Directors elected annually by the membership.

FLORIDA DEPARTMENT OF CITRUS, LAKELAND, FLA.

The Florida Department of Citrus, formerly known as the Florida Citrus Commission, is a full-fledged department of the Executive Branch of State Government. It was established in 1935 to protect the health and welfare and to stabilize and protect the Florida citrus industry. It is headed by a board of twelve growers appointed to staggered 3-year terms by the Governor and confirmed by the State Senate. The board is known as the Florida Citrus Commission.

The Department is charged with the administration of the State Citrus Fruit Laws and under those laws it has broad regulatory and police powers with respect to packing, processing, labeling, and quality standards, etc., of Florida citrus fruit and products, and the licensing of those who deal with them. Also, the Department conducts extensive advertising and promotion programs and carries on continuing broad-scale scientific, economic, and marketing research activities, all in behalf of the Florida citrus industry. Current annual expenditures are approximately $32,000,000 funded exclusively from special excise taxes assessed on each box of citrus grown in the State of Florida.

A primary concern of the Department is the protection and enhancement of the quality and reputation of Florida citrus fruit and products.

FLORIDA CITRUS PACKERS, LAKELAND, FLA.

Florida Citrus Packers is an organization representing 86 fresh fruit packers and shippers who account for over 90 percent of all fresh citrus shipped out of Florida annually, to domestic and export markets.

Florida Citrus Packers was formed to promote, foster and encourage the business of marketing fresh Florida citrus and to assist in addressing—cooperatively and collectively—the common problems of its members, including, but not limited to:

Marketing, research, quality regulation, transportation, legislative matters involving the citrus industry, insurance, labor, etc.

FLORIDA CITRUS PROCESSORS ASSOCIATION, WINTER HAVEN, FLA.

The Florida Citrus Processors Association is a voluntary trade association whose membership is comprised of 40 citrus processing firms which represents all major processing outlets located in Florida which produce frozen concentrated citrus juices and canned and refrigerated citrus juices and citrus fruits.

The members of the association, in utilizing 93 percent of the total Florida orange production and about 60 percent of the Florida grapefruit production, annually produce in excess of one billion single-strength equivalent gallons of 100 percent citrus juices.

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Mexican Citrus Producers Look to U.S. Market To Absorb Bigger Output

By John H. Wilson

Foreign Agriculture/February 1980

Mexico's citrus industry—already largely dependent on the U.S. market for much of its export sales—is increasing production and is looking to the United States to absorb much of this expanded output, both fresh and processed.

Mexican orange juice producers believe that growing consumer demand in the United States for juice will permit Mexico to supply a larger share of the U.S. market.

Mexico's exports of fresh oranges and tangerines to the United States in 1978/79 were considerably larger than in the previous year, despite the drought in 1977 and severe freezes in December 1978 that lowered production.

The drought affected all of Mexico's producing regions but was most damaging in the States of Nuevo Leon, Tamaulipas, and San Luis Potosi. The freeze was primarily concentrated in the Montemorelos-Linares citrus region of Nuevo Leon, and caused output in this area to fall from the 1977/78 level by one-third. The three drought-affected States, plus Veracruz and Tabasco in the south and Colima and Michoacan—Mexico's major lime producing States—account for the bulk of Mexico's citrus production.

Mexico's latest official production figures are for 1977 and show citrus production of about 2.48 million metric tons: 1.86 million tons of oranges, 58,200 tons of tangerines, 112,100 tons of grapefruit, and 444,640 tons of limes.

Trade sources agree with these Secretaria de Agricultura figures except they believe tangerine production was in the 125,000-130,000-ton range.

Despite the damage done by the drought, orange and tangerine output is expected to rebound sharply. By the mid-1980's, orange production is seen approaching 2.7 million tons and that of tangerines, 175,000 tons, largely because many new trees are beginning to bear and cultural practices have been improved.

New plantings, mainly of Valencia oranges and Dancy tangerines, were high in 1977/78 and 1978/79, encompassing areas from the southern tip of Tamaulipas State to the southwest coastal regions of the Yucatan Peninsula. Apparently, there is little room for expansion in traditional citrus area in Nuevo Leon.

Grapefruit and lime trees were least affected by the adverse weather because of their southerly location. About three-fourths of the grapefruit trees are in Veracruz and Tabasco, and the bulk of the lime trees are in Colima and Michoacan.

The rate of grapefruit tree plantings has been high since the early 1970's and production is expected to rise 50 percent from 1977 levels to about 170,000-175,000 tons by 1985. However, some industry sources have indicated that grapefruit tree plantings may be reduced substantially next season because of producer fear that a worldwide glut and a lessening of demand in the domestic market will cause market prices to fall.

A common concern among Mexican producers is the huge expansion of grapefruit plantings in Cuba. While the United States banned all imports from Cuba in 1962, Mexico is fearful that—if the ban is lifted—it may lose a share of the U.S. market.

Mexican lime production has stabilized during the past few years. The crop is divided between Key lime varieties (95 percent of output) and Persian varieties (5 percent).

All Mexican fresh citrus fruit exports pass through packing houses, of which there are 31. Twenty-six of these are located in Nuevo Leon and are members of the Mexican Association of Citrus Packers. The organization was established in 1964 to promote citrus production in Mexico and to improve quality and marketing opportunities for its members.

The fresh export market takes 1-3 percent of the country's oranges, 20-25 percent of its tangerines, 10-15 percent of its grapefruit, and about 1 percent of its limes. About 60 percent of Mexico's orange exports go to the United States and all of its tangerine shipments are to the United States and Canada.

Tangerine shipments are more or less limited to these countries because the fruit is susceptible to decay and peel injury brought on by excessive handling.

U.S. imports of fresh Mexican oranges and tangerines in the 1978/79 season (November-October) amounted to 46,096 metric tons—48 percent of the total were tangerines and 52 percent were oranges. This is a 70-percent gain over imports in the previous season.

Largely responsible for this increase were the short 1978/79 citrus crops in California and Arizona. Mexican shipments to the United States, especially of oranges, fluctuate considerably from year to year, mainly because of changes in U.S. demand and to a lesser degree because of shortfalls in Mexican production owing to frosts or droughts in Mexico's most important growing areas.

After the United States, the German Democratic Republic (GDR) is Mexico's most important orange export market. Latest official Mexican trade data (1977) show orange exports to the United States and the GDR were about evenly split at some 17,000 tons each.

Small amounts of oranges also go to the Netherlands. Mexican exporters normally ship as much fruit to the United States and Canada as they can and the balance to Europe, a market they are especially interested in enlarging.

Mexico's fresh grapefruit exports have doubled in the past few years, with the major markets being the United States, Western Europe (primarily the Netherlands and France), and, most recently, Japan. Shipments to Japan climbed from 90 tons in 1971 to 3,200 tons in 1978, exceeding the calendar 1978 U.S. import level of 1,260 tons.

Because of the early harvest in Veracruz, Mexican grapefruit hits the U.S. market 2-3 weeks before the U.S. shipping season gets underway. This gives Mexico a competitive advantage

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in some of its foreign markets.

Mexico hopes that, despite the anticipated larger world supplies of grapefruit, it will be able to keep its present share of the U.S. and West European markets and increase its exports to Japan in the early part of the marketing year.

U.S. imports of Mexican limes have trended upward from 3,086 tons in 1974 to a record 12,330 in 1978. The increase is attributed to larger Mexican supplies of Persian variety limes, coupled with a drop in U.S. output which fell from about 40,000 tons in 1974-75 (April 1-March 31) to 19,000 tons in 1978-79.

U.S. lime imports from Mexico continued at a relatively high level in the first 11 months of calendar 1979 (11,642 tons compared with 10,351 tons during the same period in 1978).

Because of a belief that U.S. orange juice demand will remain strong and Mexican orange production will climb, Mexican orange juice processors are increasing the number of processing plants from the existing nine--six of which produce juice concentrate—to 15 by 1981/82. Three of the new plants will be located in Veracruz and one each in Nuevo Leon, Tamaulipas, and Yucatan.

The additional plants will, in effect, enable the industry to double its overall juice processing and evaporating capacity. The nine existing plants have the capacity to remove 131,800 pounds of water per hour and have a total of 80 extractors.

To improve its competitive position in relation to U.S. and Brazilian orange juice, one of the largest existing Mexican plants at Montemorelos recently installed eight 100,000-gallon cold storage tanks to reduce its juice handling costs, insure uniform blend consistency, and facilitate bulk transfer. Similar tanks have been in existence in Florida for 5 years, but these are the first in Mexico.

By the middle of next season, this plant will begin to ship some of its output to the United States in bulk rather than in conventional 55-gallon drums. Frozen-slush juice will be transported by truck in stainless steel tanks holding 20-22 tons at temperatures below freezing.

The juice will be reconstituted and/or packaged in a nearby U.S. state. By shipping such large quantities of juice for the short distances involved, processors will realize a savings in fuel and handling costs.

About 70 percent of Mexico's orange juice output is exported. The United States takes about half of Mexico's juice exports, Canada, Sweden, the Bahamas, and West Germany are other important buyers.

U.S. demand for imported orange juice has been particularly strong in the past few years because the Florida freeze of 1977 pushed up prices for domestic juice. However, Mexico was unable to take full advantage of the market possibilities, largely because of a lack of processing capacity.

U.S. orange juice imports have soared from 31.4 million gallons (single-strength equivalent) in calendar 1976 to 150.7 million gallons in 1978. Almost all of the increase came from Brazil, which, as the world's No. 1 orange juice exporter, has capacity to produce 10-12 times more juice than Mexico. In 1978, U.S. imports of juice from Mexico amounted to 9.9 million gallons and those from Brazil, 139.5 million gallons. During the first 11 months of 1979, Mexico shipped 7.2 million gallons to the United States; Brazil sent 134.4 million.

The Mexican orange juice industry is optimistic that U.S. demand will continue strong during the next several years, despite occasional fluctuations. It believes that U.S. population growth and the downward trend in Florida's orange-bearing area—which dropped from 660,000 acres in 1970/71 to 579,000 in 1977/78—will leave ample room for expansion of Mexican juice shipments.

There are four plants in Mexico that section citrus and other fruits and a fifth one is to be built by 1980/81 in Nuevo Leon. About 90 percent of Mexico's output comes to the United States and about 10 percent is shipped to Canada.

In calendar 1978, the United States imported 4,530 tons of Mexican prepared and/or preserved oranges and grapefruit (including citrus sections) valued at $2.2 million, and 4,040 tons of prepared fruit mixtures, worth $2.3 million. Fruit mixtures include several fruits in addition to citrus, such as apples, bananas, melons, and pineapples.

Reportedly, in 1978/79 the Mexican industry has been operating at close to capacity, largely because of the strong U.S. demand for sectioned fruit. But, since Florida's production has been declining in recent years, the new Mexican plant is expected to make more sectioned fruit (canned and chilled) available for export to the United States.

Florida accounts for about 90 percent of all U.S. sectioned fruit production. Since the mid-1970's, Florida's output has fallen by slightly over 50 percent and in 1978/79 it consisted of 5,000 tons of sectioned grapefruit, 2,400 tons of orange sections, and 6,700 tons of fruit salad.

U.S. fruit sectioners, already having difficulty competing with the Mexicans in terms of quality and production costs, may continue to have problems. The Mexican industry has available a large, low-cost labor pool, which enables the industry to produce hand-sectioned fruit. The U.S. product is sectioned by machine.

Mexico also is the world's leading producer of lime oil and juice and its oil exports take care of about 60 percent of global export requirements. Roughly three-fourths of Mexico's lime oil is exported and two-thirds of U.S. requirements come from Mexico. The United Kingdom also takes a sizable volume of Mexico's lime oil.

Most of Mexico's lime juice exports are in concentrated form. Two-thirds go to the United Kingdom, and about one-third is shipped to the United States. This country took 390,000 gallons (single-strength equivalent) of Mexican concentrated lime juice in 1978.

Since Mexico's lime production has stabilized, no significant near-term expansion is anticipated in the export of lime products. It is also likely the United States and the United Kingdom will continue to be Mexico's leading markets for lime oil and juices. □

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Mr. GIBBONS. Thank you. I want to thank each member of the panel. I see we have got a vote on over there, so we will recess long enough for this vote, and we will take up the next panel after that, the Philippine Sugar Commission and the Puerto Rico Manufacturers Association, and that will conclude the hearing.

Thank you.

[Recess.]

Mr. RANGEL. The committee will resume its hearing.

At this time we would like to hear from the Philippine Sugar Commission, Ralph R. Harding, adviser and consultant, Government Affairs, and an old friend of this committee, and Mr. Francisco M. Rexach, president of the Puerto Rico Manufacturers Association.

Mr. GIBBONS. Let me welcome Mr. Harding here personally. I have toured part of the Caribbean with Mr. Harding.

Mr. Harding is a former Member of Congress and a very distinguished gentleman in his own right. Ralph, we are glad to have you here.

STATEMENT OF RALPH R. HARDING, ADVISER AND CONSULTANT, GOVERNMENT AFFAIRS, PHILIPPINE SUGAR COMMISSION

Mr. HARDING. Thank you very much, Mr. Chairman and members of the committee.

I will go ahead and summarize my statement.

Mr. GIBBONS. We will put your entire statement in the record.

Mr. HARDING. I appreciate this opportunity today to make a statement in behalf of the Philippine Sugar Commission.

We want to make clear at the outset that we are not opposing the Caribbean Basin Initiative. In fact we are sympathetic to the goals and objectives of promoting economic development and greater stability in the Caribbean region.

However, the sugar section of H.R. 2769, and also its Senate counterpart S. 544, gives real concern to the Philippine sugar industry.

The Washington Post just last week quoted a letter from President Reagan to President Marcos citing "the close and historic ties linking our two countries." President Reagan was expressing appreciation that the Philippines have been tried and true allies of the United States in World War II, in the Korean conflict, and in the struggle in Vietnam.

This same phrase can also be used to describe the relationship of the Philippines as the oldest and most reliable outside supplier of sugar to the United States. In 1796, just 20 years after we declared our independence from Great Britain, the first boat load of Philippine sugar sailed into Boston Harbor.

Up until 1960, the United States really only imported sugar from two sources: the Philippines and Cuba. When Cuba went Communist in 1960, the Cuban sugar allocation was reallocated among other countries of Latin America, Africa, and the Far East.

During the 15 years from 1960 to 1975, over 27 percent of all U.S. sugar imports came from the Philippines. To give you a contrast, this compared with 13.70 percent coming from the Dominican Republic.

The Philippine quota was earned not only by a historical record as a dependable supplier of 24.97 percent of all U.S. imports from 1930–81—excluding the war and reconstruction years—but also by a record of loyalty and sacrifice to the United States in World War II, Korea, and Vietnam. The United States has had no more dependable ally than the Philippines.

It was most unfair to base the 1982 sugar quotas on only a 7-year period from 1975 to 1981. This short base greatly favored the Dominican Republic—17.6 percent of the quota—and Brazil—14.5 percent—as compared to the Philippines—13.5 percent. This was a grave injustice.

Now comes the CBI legislation which delivers a second and even more discriminatory action in favor of the Dominican Republic at the expense of the Philippines.

We feel it very urgent that the Philippines be protected by an amendment to the CBI legislation that will provide that the Philippines, a loyal ally, will be treated equally with the Dominican Republic and the Caribbean nations.

If such an amendment is adopted, we could support the legislation with enthusiasm.

Thank you.

Mr. GIBBONS. Thank you, Mr. Harding.

[The statement of Mr. Harding follows:]

STATEMENT OF RALPH R. HARDING, PHILIPPINE SUGAR COMMISSION

Mr. Chairman and members of the Committee, I appreciate this opportunity to make a statement today in behalf of the Philippine Sugar Commission.

We want to make clear at the outset that we are *not* opposing the Caribbean Basin Initiative. In fact, we are very sympathetic to the goals and objectives of promoting economic development and greater stability in the Caribbean region. However, the sugar section of H.R. 2769, and also its Senate counterpart S. 544, gives real concern to the Philippine sugar industry.

The Washington Post just last week quoted a letter from President Reagan to President Marcos citing "the close and historic ties linking our two countries". President Reagan was expressing appreciation that the Philippines have been tried and true allies of the United States in World War II, in the Korean conflict, and in the struggle in Vietnam. This same phrase can also be used to describe the relationship of the Philippines as the oldest and most reliable outside supplier of sugar to the United States. In 1796, just twenty years after we declared our independence from Great Britain, the first boat load of Philippine sugar sailed into Boston harbor. The trade expanded rapidly and the Payne-Aldrich Act in 1909 provided the Philippines with duty-free entry for 300,000 tons of sugar annually. The Underwood-Simmons Act of 1913 removed the limit and by 1933, Philippine sugar imports had climbed to 1,250,000 tons, which represented more than 60 percent of the U.S. total imports. In 1934, the duty-free entry of Philippine sugar was drastically reduced to 980,000 tons with the passage of the Philippine Independence Act. Later, the Jones-Costigan Act of 1934 and the the U.S. Sugar Act of 1937 provided larger quotas, but Philippine exports into the U.S. market remained within their duty-free limit of 980,000 tons.

Prior to 1960, U.S. sugar imports were supplied almost exclusively by the Philippines and Cuba. During the 30 years from 1930–1959, the Philippines supplied 28.13 percent and Cuba 69.17 percent of U.S. sugar imports.

The exclusion of Cuba from the U.S. market in 1960–61 led to the Cuban sugar quota being redistributed with the Philippines receiving only a modest increase in quota.

Still, during the 15 years from 1960–75, 27.62 percent of U.S. sugar imports came from the Philippines. This compared with 13.70 percent coming from the Dominican Republic during the same period.

The Philippine quota was earned not only by a historical record as a dependable supplier of 24.97 percent of all U.S. imports from 1930–81 (excluding the war and reconstruction years), but also by a record of loyalty and sacrifice to the United

States in World War II, Korea and Vietnam. The United States has had no more dependable ally than the Philippines.

It was most unfair to base the 1982 sugar quotas on only a 7 year period from 1975–1981. This short base greatly favored the Dominican Republic (17.6 percent of the Quota) and Brazil (14.5 percent) as compared to the Philippines (13.5 percent). This was a grave injustice to a loyal ally who had earned a quota of 24.97 percent over a 52-year period of serving the U.S. market and also with blood, sweat and tears shed at the altar of liberty, justice and freedom in common cause with the United States. However, this unfair quota of a year ago was just the first unfair treatment of the Philippine sugar industry. Sugar is the major agricultural export of the Philippines. The Philippine sugar industry has been built largely to supply the U.S. market.

Now comes the C.B.I. legislation which delivers a second and even more discriminatory action in favor of the Dominican Republic at the expense of the Philippines.

The Dominican Republic will receive a duty-free status for 12 years until September 1995 for 780,000 metric tons. This translates to 890,000 short tons raw value. This compares to the 492,800 tons allocated to the Dominican Republic in the current sugar quota.

This further favoritism of the Dominican Republic sugar industry at the expense of the Philippines is unjust, unfair, and unwarranted.

We propose that the sugar section of H.R. 2769 be amended to provide that the Philippines will be treated equally with the Dominican Republic as far as sugar is concerned. This Amendment is in recognition of the role of the Philippines as our oldest and most dependable supplier of sugar, as well as our proven ally and trusted friend. Without our Amendment, the Philippines will be severely penalized by the CBI legislation which will give the Dominican Republic an enormous, unfair advantage.

I am sure it is not the intention of our government—either the Administration or the Congress—to help the sugar industry of the Caribbean at the expense of the sugar industry of the Philippines. The adoption of our proposed Amendment would merely allow the implementation of the CBI without disastrous effects for the Philippine sugar industry.

Thank you for allowing me to present this testimony in behalf of the Philippine sugar industry.

Mr. GIBBONS. Mr. Rexach.

STATEMENT OF FRANCISCO M. REXACH, PRESIDENT, PUERTO RICO MANUFACTURERS ASSOCIATION

Mr. REXACH. Good afternoon, Mr. Chairman. My name is Francisco M. Rexach, and I am president of the Puerto Rico Manufacturers Association. On behalf of the manufacturing community of Puerto Rico, I should like to express my appreciation for the opportunity to express our views regarding the Caribbean Basin Initiative. I have prepared extensive testimony which I will summarize for you now; however, I ask that the entire testimony be included in the record of these hearings.

Mr. GIBBONS. We will put it all in the record.

Mr. REXACH. Thank you very much, sir.

The proposed Caribbean Basin Initiative is an excellent example of a noble national policy being implemented in a manner which unwittingly jeopardizes the U.S.-flag territories in the Caribbean.

We must never forget that in spite of the considerable progress that Puerto Rico has made during the past four decades, the island's economy is still in a developing stage and is besieged by many of the same problems that afflict the intended beneficiary countries of CBI, unemployment presently at 23 percent being one of them.

Because of the geographic, economic and cultural similarities between all the islands of the Eastern Caribbean including Puerto

Rico, we are natural competitors for the scarce investment dollars in this region.

President Reagan said in his March 19, 1982, message transmitting CBI to the Congress,

> Puerto Rico and the U.S. Virgin Islands have a long-standing special relationship with the United States. Their development must be enhanced by our policy toward the rest of the region.

I would like to repeat the last sentence. Their development must be enhanced by our policy toward the rest of the region.

I believe that the CBI as presently structured would not enhance development in Puerto Rico; rather, it would jeopardize it. How can a policy such as CBI which seeks to stabilize small foreign countries in the Caribbean while affecting adversely the U.S.-flag territories in the region, truly serve the best national interests of the United States?

CBI as presently proposed creates another economic disadvantage for Puerto Rico: unfair trade. While foreign-made goods from CBI countries would be able to flood our market on an unrestricted duty-free basis, many Puerto Rican-made products cannot likewise enter CBI markets because of protective measures they now have.

As a matter of fact, many of the CBI countries now have negative lists, tariffs, import quotas, and other artificial barriers that effectively prevent the entry of our products into their countries. In other words, there is no free trade in many aspects.

Furthermore, if CBI should be as successful as we all want it to be and the CBI countries were to improve their industrial base, then unless proper action is taken now, the negative lists, tariff barriers, and other protective measures they now have would also increase in number and variety. Free trade in the region must truly be fair and must truly be free, especially amongst developing economies.

A special comment to our rum industry must be made here with respect to the particular threat to our rum industry. And I would like to ask permission to introduce a two-page letter in the record, if I may, Mr. Chairman.

Mr. GIBBONS. Yes, sir.

[The letter follows:]

PUERTO RICO RUM PRODUCERS ASSOCIATION, INC.,
Old San Juan, P.R., May 27, 1983.

Ambassador WILLIAM E. BROCK,
U.S. Trade Representative,
Executive Office of the President,
Washington, D.C.

DEAR AMBASSADOR BROCK: On behalf of the Puerto Rico Rum Producers Association, Inc., a nonprofit trade organization composed of all the rum distillers and rectifiers in Puerto Rico, it pleases me to bring to your attention and consideration, our points of view in connection with the negative impact, on our rum industry, of the duty-free treatment to be afforded the rum imported into the United States and Puerto Rico from beneficiary countries of the Caribbean basin.

Congress intent to protect the economy of Puerto Rico by providing that a given portion of all the excise taxes to be collected on rum imported into the United States shall be covered into the treasury of Puerto Rico, is indeed appreciated and praiseworthy. However, said proviso does not protect our rum industry, inasmuch as it does not lessen, in any way whatsoever, the impact that the removal of the custom duty on rum will have on the sale of Puerto Rican rum in the United States and in our local market. Thus, in order to, at least, nullify said impact, measures should be taken geared to increase the sale of our rum and to protect and foster its

current competitive position, not only in the Caribbean basin markets but also in foreign countries.

To this effect, we respectfully request that the following measures be the object of consideration by the Office of the Special Trade Representative:

(1) Hon. Baltasar Corrada's request to the Office of the Special Trade Representative, in his testimony before the Senate Committee on Finance, on the CBI, namely:

A. To negotiate with foreign countries the elimination of barriers to imports of Puerto Rican rum into Europe, Canada and the Caribbean Basin area.

Note.—The "Report By the President to the Congress on Foreign Tariff and Nontariff Barriers Affecting United States Exports of Alcoholic Beverages" submitted pursuant to section 854(a) of the Trade Agreements Act of 1979, summarizes the tariff and nontariff barriers affecting exports of Puerto Rican rum to foreign countries.

Being aware of your keen interest to increase reciprocal market access among United States trading partners, inspite of their reluctance to move to freer trade practices, we feel sure that your assistance will translate into new foreign markets for our sum.

B. That our rum industry be ensured that a reliable source of molasses in the Caribbean basin be maintained to enable us to continue producing rum and that your Office assists us in securing access to the molasses produced in said areas. The importance of this problem must be underscored, as a significant quantity of the molasses that we use in the production of rum is imported, mainly from Caribbean countries. In view of the fact the existence of our rum industry hinges on the availability of imported molasses, priority must be assigned to this problem.

(2) That the Federal law be amended to permit the shipment of bottled Puerto Rican rum to the United States under bond. Said amendment would equate similar treatment permitted to bottled alcoholic spirits shipped from the United States to Puerto Rico and to bulk shipments of distilled spirits from Puerto Rico to the United States. This is the same treatment currently accorded to imported spirits from foreign countries and the United States Virgin Islands.

(3) That the elimination of tariffs under the CBI, be applicable only to those countries that would permit the free and untrammeled importation into their territories of rum produced in the United States, Puerto Rico and the United States Virgin Islands, and which adjust their respective import duty on said importation to a level equal to (dollar-wise) the one that the Congress may adopt.

(4) To provide for loss of CBI benefits to any country which should discriminate, in any way whatsoever, against Puerto Rico or the United States Virgin Islands in the supply and sale of molasses.

(5) That measures be taken to prohibit the dumping of imported rums into Puerto Rico. In view of the fact that the rum producing countries in the Caribbean basin do not have to comply with the Federal minimum wages, OSHA, EPA, Social Security, Unemployment Taxes, Disability Benefits Act, State Insurance Fund, and the Federal Alcohol Administration Act, among others, their production costs must be significantly lower than ours. Thus, the flooding of our local market with imported, rums, that could sell at a very low price would redound against the best interests of our rum industry in particular and the economy of Puerto Rico, in general.

Needless to say that should you need more information, just let me know and you will receive it by return mail.

We feel sure that you will understand our concern and will assist us in continuing to fulfill our socio-economical responsibility with the people of Puerto Rico.

Your cooperation is indeed appreciated. Thank you.

Cordially,

RICHARD ROBERTS, *President.*

Mr. REXACH. Thank you, very much.

Almost all of the U.S. rum industry is located in Puerto Rico and the Virgin Islands. This industry is one of the few that can be truly sustained on these islands. Most of this rum is shipped in bulk and is truly a very price-sensitive commodity.

The privilege of shipping unlimited quantities of duty-free rum by CBI countries, when added to other cost advantages they now have such as: no Federal minimum wages, no EPA and OSHA requirements to comply with, nor the imposition to ship on U.S.-flag bottoms, would make rum from CBI countries cheaper than that

produced in Puerto Rico or the U.S. Virgin Islands. This would sound the death knell for that industry.

You will recall that the excise taxes collected by the U.S. Treasury on rum produced in Puerto Rico and the Virgin Islands is covered over into their respective treasuries. Those excise taxes presently account for 12 percent of the Puerto Rican budget and 30 percent of the U.S. Virgin Islands budget. No purpose would be served by transfering the rum industries of the Flag Territories to CBI countries with the resulting loss of jobs and revenues in those territories.

In conclusion, gentlemen, we support the principle behind the Caribbean Basin Initiative because we do believe in a democratic system of government where free and open competition prevails. We do, however, have some very strong reservations as to whether this worthwhile project will effectively do the job it is intended to do, under its present format.

We furthermore believe that unless amended, it could generate some real danger for the developing economies of the U.S. Virgin Islands and Puerto Rico.

Thank you.

[The prepared statement follows:]

STATEMENT OF FRANCISCO M. REXACH, PRESIDENT, PUERTO RICO MANUFACTURERS ASSOCIATION

I. INTRODUCTION

Mr. Chairman, on behalf of Puerto Rico's manufacturing community, I should like to express my appreciation for this opportunity to be heard on such a vital matter to our island as is this Caribbean Basin. Economic Recovery Act (H.R. 2769 and S. 544).

The Puerto Rico Manufacturers Association (PRMA) is a non-profit entity, organized in 1928 under the laws of the Commonwealth of Puerto Rico. Its membership presently stands at 1,058 member companies. Its regular members (70 percent of the membership) are companies engaged in various types of manufacturing operations and the remaining 30 percent of its members are commercial and service companies with specific interests in the manufacturing sector of our economy.

PRMA believes that any of the proposed bills under consideration, if enacted as they are currently structured, would adversely affect the best interests of the Puerto Rican economy and would also have the potential of damaging the best interests of U.S. manufacturing firms, many of which have substantial interests in Puerto Rico. Accordingly, the statements that follow are made with the unequivocal intention of safeguarding those interests and inviting Congress' attention to the possible detrimental effects that would result from the present CBI proposal.

The PRMA is in agreement with the principle enunciated by President Reagan himself when he said in introducing the CBI: "The program I am presenting to Congress today is integrated and designed to improve the lives of the people of the Caribbean Basin by enabling them to earn their own way to a better future". That is precisely what we in Puerto Rico have done over the past 40 years, with the assistance of the United States. However, our economy still has a long way to go before we achieve even the lowest of the stateside standards. Should the CBI program become law as it is now envisioned, the remarkable but unfinished progress the people of Puerto Rico have attained would suffer a setback more severe than the one our economy just experienced as a result of last year's amendments to Section 936 of the United States Internal Revenue Code (Section 936) which seriously hampered the backbone of our industrial development program. Our economy is extremely weak and cannot afford another setback.

II. THE ECONOMY OF PUERTO RICO

During the past 40 years, Puerto Rico has lifted itself up by its bootstraps and turned around its economic base from an agricultural to an industrial one. Once the poorhouse of the Caribbean, Puerto Rico today has the most advanced socioeconomic

condition anywhere in the Caribbean. We have done precisely what the CBI proposes to do for the entire region and naturally we do not object to that principle.

Our industrial promotion program has been further hampered by economic conditions on the mainland. Our rate of plant openings is stagnant (See Exhibit III) while at the same time, plant closings are increasing (See Exhibit IV). Start-up employment generated by Fomento-promoted plants during the last three years stood at 5,373, while jobs lost due to plant closings were 9,805. Meanwhile, during that period of time 22,000 persons entered the labor force and an additional 15,000 jobs were lost in the construction industry due to a total stagnation of that crucial sector of our economy.

It is then no surprise that migration of U.S. citizens from Puerto Rico to the mainland has started once again in substantial numbers: 49,000 in 1981. For the first time we are seeing substantial numbers of technicians and professionals seeking better job opportunities abroad. Others have moved to the United States for one simple reason: to avoid discrimination by reason of living in Puerto Rico. As United States citizens, these persons have a right to enjoy social and welfare benefit programs enacted by the Federal Government. Any United States citizen who resides in any state of the Union is entitled to receive 100 percent of those benefits. However, if such a citizen were to move to or be a resident of Puerto Rico, he or she would only be entitled to receive a portion of those benefits. Under present Federal law, residents of Puerto Rico do not participate equally in the benefits of social and welfare programs. This inequity in the law forces the island's unemployed to migrate to the mainland in order to receive their equal share of those benefits while searching for employment opportunities.

III. POSSIBLE EFFECTS ON CBI ON PUERTO RICO

The Caribbean Basin Initiative comes at an extremely crucial and unfavorable time for Puerto Rico. We have already discussed the precarious condition of our economy. In addition, several other important events are about to, or have recently, taken place.

1. The incentives of Section 936, the foundation of the island's industrialization program has been adversely curtailed.
2. The proposed Enterprise Zones legislation, a mix of federal, state and local tax concessions and special incentives, threatens to diminish substantially the appeal of Puerto Rico's industrial and service incentives.
3. Discussions are underway to deregulate some maritime shipping activities, which would most likely increase ocean transportation to and from the island.
4. The New Federalism is reducing funds available to Puerto Rico in many important sectors.
5. Capital investment in Puerto Rico is declining and personal savings remains negative (See Exhibit V).
6. Stateside and foreign competition for the investment dollar is at a crescendo with many areas offering significant incentive packages which we cannot always meet due to limitations imposed by our special relationship with the United States.

The centerpiece of the CBI plan is the duty-free entrance of foreign-made products from the Caribbean Basin area into the United States. Heretofore that privilege has been reserved exclusively for U.S. territories and possessions because it was determined that such a privilege would help their development. By opening the U.S. borders to foreign imports, Congress is also opening Puerto Rico and the Virgin Islands' borders to duty-free foreign-made products from the Caribbean. Yet products made in Puerto Rico and the U.S. Virgin Islands cannot enter duty-free into the countries that CBI is so graciously courting. In fact, most of the CBI countries have duties and tariff barriers that make it uneconomical or impossible for Puerto Rican made products to enter their markets.

Proponents of CBI say that currently 87 percent of the products made in the Caribbean countries already enter the U.S. market duty free. Assuming the figure to be correct (although we question it), that figure pertains to those products NOW being manufactured there. But the CBI program proposes to have new and more manufacturing activities come into the area. These new products would be in direct and unfair competition with sundries manufactured in Puerto Rico. We also question the reasonableness of the 35 percent value added measure or its effectiveness as a control measure.

We must conclude that CBI products will adversely affect industry in Puerto Rico and will also affect the U.S. corporations in the United States. An example proves the point: Japanese cars currently being assembled in Trinidad are in the 13 percent of products currently excluded from entering the United States duty free from

CBI countries. The value of the added-on work done in Trinidad and a few gadgets made in the area could easily bring the cars into compliance with the 35 percent value added requirement. Should CBI be approved, could "Japanese cars made in Trinidad" enter the United States duty-free? If so, what then happens to the weak U.S. auto, steel and auto accessories industries in the United States? Take the electronic industry as another example. In Puerto Rico we now have approximately 250 electronic plants that could, as well as their stateside counterparts, be seriously affected by the "Japanese Caribbean Basin Initiative". Exhibit VI shows that Barbados, Costa Rica, Dominican Republic, El Salvador, Haiti, Netherlands Antilles and Panama are already supplying electronic components, parts and/or accessories to the U.S. market. In 1980, this group exported approximately $180,781,000 of electrical products to the stateside market. That was from only eight of the twenty five countries covered by CBI (excluding communist-oriented ones).

Because Puerto Rico is part of the United States, it must comply with specific statute and regulations which do not apply to countries within CBI. Among these are: (1) Federal Minimum Wages; (2) OSHA; (3) EPA; (4) MENSHA; (5) The Jones Act; (6) USDA; (7) EEOC; (8) FDA; and others. All of these statutes and regulations have specific safety or protectionist purposes for which there are no comparable provisions in the CBI foreign countries; however, they constitute an added economic burden to U.S. manufacturing concerns. Oftentimes, they impose quite a high price.

Consequently, CBI countries will be competing with American business under a different set of rules from those applicable to manufacturers in Puerto Rico and in the United States. In other words, American business will be penalized or handicapped by a set of federal statutes and regulations while its CBI competition has a "carte blanche" to operate freely. This flies in the face of out traditional American notion of free and fair competition.

One of the heaviest burdens that a manufacturer in Puerto Rico has to contend with is the high cost of electricity. Our cost of energy is extremely high (See Exhibit VII) and compares unfavorably with stateside areas and CBI countries. In terms of manufacturing, this is a significantly strong disadvantage. If you couple that with a local cost of labor that is higher than that of CBI countries, you can readily see why duty free entry into Puerto Rico by foreign producers can deter investment by prospective and existing manufacturing enterprises. One must also keep in mind that Mexico and Venezuela have offered special incentives to CBI countries, for the purchase of petroleum for their development needs by offering very attractive prices and terms of sale. (See Exhibit IX). These special incentives are not available to Puerto Rico.

Puerto Rico's rum industry is a very significant segment of our manufacturing community. In 1981, our Treasury received over $227,000,000 in taxes from rum sales made in the United States and over $26,000,000 in taxes from rum sales made in Puerto Rico. These sums of monies represent approximately 12 percent of Puerto Rico's operating budget. In addition, our rum industry generates over $100,000,000 yearly in salary wages, purchase of raw materials, services, etc. (See Exhibit X.)

Full protection of this industry can only be achieved by incorporating those measures contained in Exhibit IX of this report.

It would be unfair if in this report we failed to mention some of the positive aspects which the CBI plan could have for Puerto Rico. Among these are:

1. Puerto Rico could become a trade and transportation center for the Caribbean as economic activity develops in the Region. However, one must bear in mind that all cargo movement from the mainland to Puerto Rico by law must be made aboard higher cost U.S. flag ships. These higher costs would have to be passed on to consumers on other islands if merchandise were to be transhipped through Puerto Rico. This is a real disincentive when you consider that Florida can ship directly to CBI countries on foreign flag vessels at a lower cost.

2. Because Puerto Rico is more advanced in several aspects (education, health, economics) than most of the CBI countries, we can contribute significantly in areas such as vocational training, technology, health training and education, agricultural knowledge and the like. Puerto Rico can play a leading role in terms of the implementation of economic, social, educational and health programs.

3. In the long run, if the CBI plan contributes significantly to the economic well being of the Caribbean nations, then presumably, their purchasing power is strengthened and Puerto Rico could develop more trade and exports in the area. We say "could" because economic development of the area will not automatically mean more business opportunity for Puerto Rican businessman. One must keep in mind that our products do not have free access to Caricom countries. There are artificial trade barriers to the entry of our products into CBI markets. There is no guarantee that as new products are manufactured in CBI countries, protective barriers are not

established by those countries to prevent entry of competing Puerto Rican-made products.

4. The progam offers some manufacturing opportunities under what has been labeled the "Twin Plant Concept"; a program whereby a labor intensive manufacturing operation would be carried out in a CBI country and a higher value, hi-tech operation would be finished in Puerto Rico. There are some such cases currently in process with Haiti and the Dominican Republic. While we can appreciate the merits of this program—in operation—we doubt it will be of significant, long-lasting impact to the manufacturing sector and to the economy of Puerto Rico.

5. There are several other areas in which some sectors of our economy could benefit from an increase in economic activity within CBI countries. Among these are banking, education, health, engineering, construction and various service-oriented activities. Private educational institutions in Puerto Rico could be available for specialized training, as well as medical facilities here could be incorporated into a Caribbean Medical Program.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. *Conclusions.*—We recognize without reservations, that the principle of helping less developed countries, particularly our neighbors, is one to be pursued arduously and in good faith. Promoting democracy and the free enterprise system in developing countries should also deserve top priority. These precepts we do not argue with.

We do take exception to the proposed mechanism by which the above worthwhile objectives are being sought. We believe it will create substantial dislocations to a well-balanced system. We also consider it our duty to protect the best interests of our membership, the Peurto Rican industry, and those of the people of Puerto Rico. Likewise, it is also our responsibility to bring to the attention of Congress and the Administration the negative effects that the proposed measure could have as presently structured.

In view of the above, the Puerto Rico Manufacturers Association does not support the proposed Caribbean Basin Economic Recovery Act (H.R. 2769 and S. 544). The implementation of these bills, as they now stand, will adversely affect the best interests of the manufacturing community in Puerto Rico and in the United States.

Recommendations.—In order to harmonize the laudable objectives of the Caribbean Basin Economic Recovery Act with the interests and needs of Puerto Rico, and those of other less-developed areas on the mainland, we respectfully submit the following recommendations for your consideration:

1. Emergency economic aid should be provided to the Basin countries on a case by case basis as the Administration and/or Congress may determine appropriate.

2. Duty-free treatment of imports from the Caribbean should be granted by industry sectors and only after it is fully demonstrated, by a complete industry sector study, that such action will not have a harmful effect on the industrial development of Puerto Rico, and other less developed areas on the mainland.

3. Adequate protective measures, such as proposed in H.B. 3108 for USVI and P.R. rum should be adopted.

4. P.R. Tuna industry must be safeguarded by excluding tuna from the CBI measure.

5. Tax benefits for U.S. conventions to CBI countries should not be extended. Such an action would adversely affect U.S.V.I. and P.R. tourism industry.

Mr. GIBBONS. Thank you.

Mr. RANGEL. I want to thank both of the witnesses for their testimony, and especially to the Puerto Rican manufacturers. The Congress is going to be relying heavily on your leadership as the linchpin of what we do in that area. Certainly the full committee would not want to do anything at the expense of our citizens, so we thank you for your statement.

Mr. GIBBONS. Mr. Conable.

Mr. CONABLE. Yes, sir. It is not clear to me. You are concerned about other goods than just the rum industry apparently in the effects of the trade concessions that would be made to the Caribbean area; is that correct?

Mr. REXACH. Yes, sir. Perhaps an example would best serve to illustrate. As you know, in the English-speaking communities of

the Caribbean area, there is an organization called Caricom, which has been established now for some time. In Puerto Rico most of the local manufacturers, not the multinational companies but the small locally owned companies, produce their products, sell it locally, and also sell quite a bit to the Caribbean neighboring islands.

One such case is the case of a paint manufacturer who was selling to one of the Caribbean countries. Last year, for instance, another manufacturer in one of the other Caricom islands began manufacturing paint. Because the paint product was being manufactured in the Caricom area, the barriers came up immediately and actually prevented the Puerto Rican-made product from entering that market in which he was already selling to.

The same thing has happened in situations between Jamaica, Trinidad, and Puerto Rico. What we are getting at is that if the Caribbean area or the CBI countries have an opportunity to compete in our market—and we do welcome competition; I think it is very good—we do want to also have the same opportunity to compete in their respective markets, particularly when Puerto Rico is a developing economy and we do have a need for increasing our exports.

Mr. CONABLE. I understand your concerns, but why isn't that as true, why aren't these concerns as true for American manufacturers as for Puerto Rican manufacturers? Is it simply because of your close proximity to the markets that you feel that you would be particularly buffeted by the trade concessions involved?

Mr. REXACH. Proximity is one reason. Limitation as to the size of shipments renders Puerto Rico in a better position to supply the region than it would perhaps a U.S. manufacturer; and our economy, as I said, is a developing one which must be strengthened by all possible means.

Mr. CONABLE. It has been our assumption here to some degree that any development of the economy of the Caribbean region would ultimately be primarily of benefit to Puerto Rico, because you are in the front row as American citizens, and are much more closely located to the market than the continental manufacturers. This apparently is not a generally shared feeling in Puerto Rico?

Mr. REXACH. No, sir. We don't quite share that particular feeling from the point of view of manufacturing, and I will give you other examples. We have been told, and you have been informed at various meetings, that 87 percent of the products now being manufactured in the Caribbean area enter the United States on a duty-free basis.

Well, if you have only 10 products being manufactured and 8 of them enter the United States on a duty-free basis, then that situation would certainly be one that may be acceptable provided that our products were equally treated by CBI beneficiary countries. However, as you increase your base of products being exported to those countries you will increase the number of products that are going to be included in the Caricom negative list and be subject to the trade barriers. Then the proportion of products manufactured in CBI beneficiary countries that can be imported duty free into Puerto Rico to those manufactured in Puerto Rico for duty-free imports into CBI beneficiary countries would certainly change to the

degree that it could adversely affect the entry of products made in Puerto Rico into the Caribbean area and our economy.

If there were no trade restrictions, and Caricom has very specific trade restrictions, if there were no trade restrictions at all, then the situation would be an acceptable one and one that we would encourage. We are very much concerned with the trade barriers presently existing in the Caribbean area, and they seem to be increasing every day.

As you well know, at the meetings of last week at Williamsburg, one of the issues that was very seriously discussed was precisely the bringing down of protective barriers, and if we are to develop a free economy within the private enterprise system in the Caribbean, certainly this should be a major consideration.

Mr. CONABLE. Let me ask you about Caricom. You say it is an English-speaking Caribbean?

Mr. REXACH. Yes, Caricom. There are no Spanish-speaking members in Caricom.

Mr. CONABLE. Is there some particular reason why this group has a community of——

Mr. REXACH. The Caricom group basically was founded by former English colonies in the Caribbean region sometime back; I believe it was in the sixties—I am not sure of the year. They decided to form the Caribbean Economic Community, also known as Caricom in order to secure advantages for trade and development within their membership, and at the same time to protect their own local manufacturing facilities from imports of certain products. It is a custom union almost like a common market.

Mr. CONABLE. Are there other similar groups in the Caribbean now operating to some degree in a customs union?

Mr. REXACH. There is one other such customs area that I am aware of. It is the Latin American Free Trade Area [LAFTA] made up of several Central American countries. LAFTA has not been as successful as Caricom due to the political diversity of the former.

Some of the other countries within CBI also have negative lists for some products. We could supply you copies of those lists. Panama has some, I know for sure, and some of the other countries also have restrictions.

Mr. CONABLE. Thank you very much.

Mr. REXACH. Thank you very much, sir.

Mr. GIBBONS. I want to thank both of you today and all of the other witnesses we have had. This concludes today's hearings and the hearings on this subject for this time. We ask that any corrections that there are to be made in the record be made by June 16.

This concludes the hearings on the Caribbean Basin Initiative. Thank you.

Mr. REXACH. Thank you, sir.

[Whereupon, at 3:50 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF HON FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Although the nations of the Caribbean are in desperate need of economic help, I do not think that Americans realize how much aid they are already providing through the extremely inefficient, expensive, trade-distorting sugar quotas and tariffs. American sugar policy has cost consumers $2-$3 billion per year for more than

a year now, as the world price of sugar has been around 6–9 cents, while the U.S. imported price of sugar has been about 21 to 22 cents. Our sugar quotas have depressed the world price of sugar by 2–4 cents per pound, severely harming many nations who have little or no U.S. quota rights and must sell most of their sugar on the world market.

While many Caribbean countries are able to obtain the U.S. price of about 21 cents (minus transportation, etc.) and thus are helped by the very tight quotas, in a market in which the world price is closer to the U.S. price, they may actually be hurt, because they would gain little from selling to the United States, but the U.S. trade barriers would still be depressing the world price.

The impact of the quotas on other, friendly trading countries is very serious. For example, if all of Thailand's sugar was sold in the free market, the depressing impact of the U.S. sugar "system" would be about five times the value of Thailand's small U.S. quota. This is no way to make trading friends.

[Attached is a letter to Representative Stark on these issues from the U.S. International Trade Commission.]

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

June 3, 1983

Honorable Fortney H. Stark
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Stark:

Thank you for writing the Commission concerning U.S. sugar policy and requesting information on the domestic sugar situation for use in the upcoming debate on the Caribbean Basin Initiative.

Most of the factors on which you request an analysis are normally examined in investigations such as those conducted under section 332 of the Tariff Act of 1930 or section 22 of the Agricultural Adjustment Act, as amended. A copy of the Commission's most recent study on sugar, conducted under section 22 (USITC Publication 1253, June 1982), is enclosed. We are currently anticipating a request for another investigation on sugar under section 22. It would, therefore, be inappropriate for us to comment further on the sugar situation, in order not to prejudice the findings and recommendations that would be required as a result of the investigation. A number of the charts and statistical tables contained in USITC publication 1253 are being updated and will be sent to you, under separate cover, not later than June 6, 1983. For your immediate use, however, we are enclosing a table we had on hand showing sugar production and trade for the years 1975-82.

We have contacted a number of industry sources regarding the four specific questions asked in your letter. Though the answers were diverse, the following summarizes the range of responses for each of these questions:

(1) What do you estimate is the reduction in sugar imports because of our domestic sugar price support system?

The import quota for the current crop year limits imports to 2.9 million short tons, raw value. Based on the trend of imports in previous years, imports probably would have been in the range of 3.5-3.6 million short tons if no quota had been in effect.

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In addition, if there had been no price support program the consensus of the industry is that a large part of the domestic beet sugar production probably would not have taken place and imports might have been as large as 5 million short tons.

(2) What do you estimate the depressing effect of U.S. sugar restrictions to be on the world price of sugar?

According to the industry, world prices would be from 2 cents to 4 cents per pound higher if the United States did not have import restrictions.

(3) Assuming that all the sugar we have not imported would have been imported from the Caribbean, what is the economic impact of these actions on the Basin?

The import quotas are believed by the industry to be economically beneficial to the Caribbean countries. These countries receive U.S. prices for sugar they export to the United States rather than world prices (i.e., currently about 21 cents per pound rather than 9 cents per pound). Though the quotas reduce the amounts sold to the United States by the Caribbean countries below traditional amounts, the difference is sold on the world market by those countries at prices estimated to be 2 cents to 4 cents per pound less than the price the Caribbean countries would have received if the United States did not have import restrictions.

(4) What has been the consumer costs of sugar trade restrictions since the enactment of the 1981 Agriculture Act, taking into account the 3:1 impact of sugar import restrictions?

This question received the broadest range of responses from the industry. In general, it is estimated that the current annual cost of the price-support program and the import restrictions is between $2 billion and $3 billion to U.S. consumers. A 1-cent-per-pound change in U.S. raw sugar prices is estimated to affect wholesale sweetener costs about $250 million per year; the impact on consumers would be much more, but the industry believes the 3:1 impact is an overstatement.

Please continue to call on us whenever we can be of assistance to you.

Sincerely,

A Eckes

Alfred Eckes
Chairman

Table 1.--Sugar: U.S. production, imports, exports, ending stocks, and consumption, calendar years 1975-82

(Quantity in thousands of short tons, raw value)

Year	Production	Imports	Exports	Ending stocks	Apparent consumption
1975	6,599	3,978	216	2,856	10,384
1976	7,110	4,861	76	3,498	11,253
1977	6,357	6,240	22	4,491	11,582
1978	5,806	4,005	16	3,754	10,532
1979	5,986	4,909	18	3,701	10,930
1980	5,913	4,191	650	3,082	10,073
1981	6,379	5,121	1,048	3,461	10,073
1982	6,094	2,640	65	2,912	9,218

Source: Production and ending stocks, compiled from official statistics of the U.S. Department of Agriculture. Imports and exports, compiled from official statistics of the U.S. Department of Commerce.

FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES:
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515
June 9, 1982

Hon. Daniel Rostenkowski
Chairman
Committe on Ways and Means
1102 Longworth HOB
Washington, D.C.

Dear Mr. Chairman:

During discussion of the Caribbean Basin Initiative in the 97th Congress, I took particular interest in the section of the bill relating to denial of new tax incentives and benefits for investments in Caribbean Basin countries that do not provide for the orderly exchange of tax information. My interest in this particular aspect of the CBI proposal continues and I hope the Committee will address the issue in its consideration of the CBI in the 98th Congress.

There are a number of Caribbean nations which are flagrant tax haven countries, serving as nations which pirate the capital of other nations and which are delighted to harbor legal and illegal investments, with no questions, or taxes asked. They also refuse any effective cooperation with U.S. and international police efforts to trace drug money, the "profits" of organized crime, and the investments of international swindlers.

In addition to being safe deposit boxes for the world's criminal elements, these nations offer quasi-legal ways for U.S. investors to avoid the spirit of U.S. tax laws.

The Joint Taxation Committee recently furnished me with a discussion of typical "legal" schemes that use tax haven countries in the Caribbean. These tax haven countries allow U.S. brokerage firms to offer "tax packages" involving (according to the Joint Taxation Committee),

> "the exploitation or circumvention of the following: corporate income tax, the rules taxing corporate shareholders, the accumulated earning tax rules, the rules requiring gains from trading in commodity futures marked to market (accounted for annually though not realized), and the capital gains tax."

I have since introduced legislation to close the tax loophole that now accomodates such abusive schemes in several of the CBI nations, most notably the Bahamas, British Virgin Islands, Cayman Islands, Montserrat and Panama.

As I expressed to the Committee during the 97th Congress, I

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feel strongly that an "anti-tax haven" provision should be included in the CBI proposal. There is absolutely no reason for us to extend special duty-free treatment to Basin countries that refuse to cooperate with our law enforcement authorities.

I have always supported due process in IRS examination of individual and corporate bank records. I have continually supported rigorous controls in IRS summons power. But some of the CBI nations serve as notorious asylums for tax evasion and narcotics and swindling operations. Any proposal by the United States to foster economic cooperation and advancement of our Caribbean neighbors must preserve our prerogative to require an exchange of information agreement to carry out and enforce our laws--and our prerogative to refuse special privileges if cooperation is not assured.

Sincerely,

Fortney H. (Pete) Stark, Jr.
Member of Congress

FHS/mss

AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS,
New York, N.Y., June 13, 1983.

MR. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. SALMON: The American Association of Exporters and Importers [AAEI] understands that the Committee on Ways and Means presently has under consideration three bills whose single purpose is to promote economic revitalization and facilitate expansion of economic opportunities in the Caribbean Basin region. The bills are H.R. 2769 (by Trade Subcommittee Chairman Gibbons), H.R. 2819 (By Mr. Gephardt), and H.R. 2249 (by Mr. Akaka). These bills, as well as S. 544 recently reported out by the Senate Committee on Finance, have as one of their goals establishment of preferential tariff treatment for certain articles from certain countries within the Caribbean area, in line with President Reagan's "Caribbean Basin Initiative," [CBI].

On June 9, a hearing was held on Mr. Gibbon's bill H.R. 2769, which bill AAEI understands is almost identical to H.R. 7397 as approved by the House of Representatives on December 17, 1982 during the lame-duck session of the 97th Congress.

Having discussed potential impacts upon our more than 1,300 international traders-member firms of the CBI in general and legislation in particular, the American Association of Exporters and Importers concludes that support of the enactment into law of the Initiative is warranted, but subject to the following conditions:

(1) Prior to implementation, the United States should obtain a GATT waiver for this special regional arrangment; and,

(2) The CBI should be put forth as a system of specified duration.

AAEI appreciates the opportunity to comment on proposed CBI legislation. The Association stands ready to assist Committee members in their deliberations.

Sincerely,

EUGENE J. MILOSH,
Executive Vice President.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., June 17, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, House Ways and Means Committee, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ROSTENKOWSKI: The American Farm Bureau Federation, representing over three million member families, is pleased to comment on H.R. 2769, legislation to implement the Administration's Caribbean Basin Initiative. We understand the government's desire to promote economic revitalization of the Caribbean Basin region. However, the Caribbean Basin Initiative presents certain problems of considerable magnitude for U.S. farmers unless effective safeguards or exemptions are incorporated in the legislation to adequately protect their interests.

Farm Bureau cannot support the Caribbean Basin Initiative unless safeguards are established or exemptions included in the legislation to:

(1) Ensure the integrity of the domestic sugar program and oppose proposals for duty free imports of sugar under the Caribbean Basin legislation or any increases in quotas.

(2) Ensure quick relief, if needed, from any surge of fresh fruit, vegetable and other horticultural imports that might seriously impact on U.S. producers. Unless studies of the effect of the CBI initiative on the U.S. vegetable industry show that there would be no adverse effects, we ask that the vegetable industry be exempted from the CBI initiative.

In the past, U.S. growers have found that cases brought under Section 201(b) of the Trade Act of 1974, are expensive; and seldom have such cases resulted in needed relief. Therefore, we would like to see the President quickly grant relief on the recommendation of the Secretary of Agriculture when domestic prices decline because of imports (as in the CBI proposal). However, this relief should be granted without the necessity of U.S. growers having to follow through to sustain the President's action with expensive and time-consuming petitions under section 201(b) of the Trade Act of 1974.

(3) Provide adequate safeguards against transshipments of agricultural commodities and products by countries outside the Caribbean Basin region into the U.S. market via the Caribbean Basin countries.

(4) Provide an exemption for tobacco imports from the CBI initiative since such imports into the Caribbean Basin countries for semi-processing would result in so-called scrap tobacco that could then be imported into the United States duty free. This could result in effective elimination of all duties on the bulk of the tobacco imported into the United States by routing most U.S. imports of tobacco through Caribbean Basin countries for semi-processing in order to gain duty free entry into the United States. Not only would this be injurious to domestic tobacco producers but it would also deny to the U.S. Treasury the tariff revenue, which is now applicable to tobacco imports.

(5) Provide safeguards against foreign concentrated orange juice imports into the Caribbean Basin countries for conversion to single strengthened orange juice that could then be imported into the United States duty free. For example, concentrated Brazilian orange juice would be a candidate for such treatment.

(6) Provide that the annual increase in quantity of imports from a country be limited to 5 percent–10 percent.

Resolution of most of the above considerations, especially points (4) and (5), could be accomplished by extending to all agricultural products and commodities the exclusion from duty free treatment now applicable to textiles and apparel articles.

Mr. Chairman, we appreciate consideration of our views as the Caribbean Basin Initiative legislation is discussed and marked up in your committee.

Sincerely,

JOHN C. DATT,
Secretary and Director, Washington Office.

STATEMENT OF HON. HUGO DENNIS, JR., VICE PRESIDENT, AMERICAN FEDERATION OF TEACHERS

Mr. Chairman and members of the committee: My name is Hugo Dennis, Jr., I am vice president of the American Federation of Teachers, AFL–CIO; Senator in the United States Virgin Islands, Fifteenth Legislature; and past president of the Virgin Island Teachers' Union. Wearing either one of my current hats, or even both at the same time, I come before you to testify about the Virgin Islands Teachers' view of the Caribbean Basin Initiative. I am grateful to you, Mr. Chairman, for giving me this opportunity to do so.

I recognize that it is the responsibility of the Administration and perhaps this Committee, to consider the broad view of America's interest and foreign policy in any particular area of the world. But, it is my responsibility, and that of thousands of others like me, to see that in painting the big picture, the little guy is not left out.

There are lots of little guys in the United States Virgin Islands. They have come to rely on the economic inter-relationship between the United States, The Territory, and other Caribbean nations as it exists today, and has existed for many years. In the eyes of those who live "down island", the Virgin Islands are the economic jewel of the Caribbean, largely because of its special relation to the United States. There is perhaps no better proof of this fact than the much sought after immigration from citizens of other Caribbean nations to the Virgin Islands. We Virgin Islands people enjoy higher incomes, lower unemployment, greater employment benefits, than do most of our island neighbors. We are proud of our achievements and know that they have come from the preferential tariffs and duty-free status granted by the United States. We are a gem of a Territory because we are United States Territory.

So why tarnish the jewel? This Caribbean Basin proposal sacrifices significant economic advantages of the United States citizens of the Virgin Islands in order to put a little polish on other island nations. Now I am not against helping the economies of other Caribbean communities, but I am against changes in the economic structure that mean less jobs, lower incomes, and withdrawn benefits for the people of the Virgin Islands. What respect can these foreign countries have for a big picture whose price tag is the economic destruction of the very citizens of a United States Caribbean Territory? If the United States cannot promote better economic relations in the Caribbean Basin without sacrificing the very example it has so long held out as representative of free enterprise—its own Territory—can we really be taking a step forward in the broad view?

There must be a way to do both, help our friends and preserve the economy of the Virgin Islands Territory. I know I express to you the concern of thousands of teach-

ers as well as employees of all kinds throughout the Virgin Islands, when I ask you to resist the damage—the economic fallout in the Virgin Islands—present in the proposed Caribbean Basin Initiative. It is unfair to the little guy, it is unfair to those who have been for so long the best example of free enterprise in a free country in the Caribbean Basin.

Lest you believe that there is no real threat, consider the figures. The Virgin Islands now receives nearly $40 million from rum excise taxes. Our annual budget last year was just over $200 million, so this Caribbean Basin Initiative can affect 20 percent of our budget. 80 percent of our budget is now payroll. You might as well figure that for every dollar we lose from the CBI proposal, we must cut a dollar out of someone's paycheck. This is real damage. It comes at a time when our fiscal problems are compounded on all fronts. It is a blow from which I doubt we can recover.

Thank you, Mr. Chairman, for this opportunity to testify.

[Attachment.]

REAGAN'S CARIBBEAN BASIN PLAN

Whereas, the Reagan Administration has proposed a far-reaching plan to reorder our policies regarding the economic development of the so-called Carribean Basin, and

Whereas, this plan would result in a dramatic reduction and elimination of tariffs for goods imported into the United States from the Island nations of that Region, and

Whereas, the United States already has a huge economic interest in the Caribbean Basin and should view changes in our existing relationships with caution, and

Whereas, the U.S. Virgin Islands and Puerto Rico must remain as the focus of U.S. concern in the region. Proposals that favor other nations at the expense of these U.S. Islands should be rejected, and

Whereas, preferential tariff arrangement for other countries in the Caribbean Basin must not be established if the effect is to cause even more severe economic problems for Puerto Rico and the U.S. Virgin Islands;

Resolved, that the AFT work against the Reagan Caribbean Basin Plan because it would damage the economies of Puerto Rico and the U.S. Virgin Islands where our union represents thousands of teachers, and

Resolved, that the AFT support proposals designed to help the nations of the Caribbean Basin improve their economies in conjunction with the interests of our members in Puerto Rico and the U.S. Virgin Islands.

STATEMENT OF HARRY E. B. SULLIVAN, ASSISTANT DIRECTOR, NATIONAL FOREIGN RELATIONS COMMISSION, THE AMERICAN LEGION

The American Legion would like to thank the Chairman and members of this Committee for being provided the opportunity to share with you its views on the Caribbean Basin Initiative [CBI]. The Western Hemisphere Task Force of the Legion's Foreign Relations Commission has intensively studied the Caribbean Basin over the last few years. The results of these studies have placed The American Legion in the forefront of those urging Americans to recognize vital U.S. economic and security interests and to support a comprehensive, long-term program to promote freedom, democracy and economic development in this region.

As such, The American Legion firmly supports the provisions of H.R. 2769, which implement the trade aspects of the CBI. Foreign Relations Resolution 484 (copy attached), carries the approval of our 2.6 million members and clearly expresses our support for the program as well as the suggestion that the CBI be expanded into a "Marshall Plan" for this critical, but often overlooked area.

A prosperous, stable, friendly Caribbean Basin is essential to the maintenance of U.S. security and economic interests. Our dependence on the Panama Canal and Gulf of Mexico as vital arteries for both trade and strategic reinforcement is undeniable. In peacetime, most of our imported petroleum, approximately half of our trade, and the majority of our strategic minerals pass through them. In time of crisis, most of our reinforcements and resupply to NATO Europe would pass through them. However, for the past two decades, Cuba has increasingly become "an unsinkable aircraft carrier" for potential use as a key interdiction base by the Soviets in time of crisis as well as a strategic focal point which would draw our attention away from other strategic commitments in time of peace. The evolution of "more Cubas" in the Caribbean Basin would greatly intensify these concerns.

Every day, Americans come to understand more clearly the increasingly interdependent world economies. United States-Caribbean relations reflect that trend. From 1977 to 1981, American exports to the Caribbean Basin surged by almost two-thirds, from $4 billion to $6.7 billion with a United States-Caribbean Basin trade

volume in excess of $17 billion. Unlike many regions where we run an annual deficit, the Caribbean Basin has achieved a $2 billion annual balance of merchandise trade for the United States. The relatively strong economic role of our nation in the region is further reinforced by the 25- to 57-percent share of the market in most countries that goes to U.S. exporters. Another matter which must be considered is that The Caribbean Basin now ranks as the second largest source of illegal immigration into the United States. Naturally, both the United States and the Caribbean Basin countries would like to stem that flow. Unfortunately, so long as economic recession, insurgency, and lack of job opportunities persist, there is little hope that the flow of illegal immigrants can be stopped or even reduced.

Exploiting the strains brought on by modernization in Central America, the Soviet Union and Cuba are backing insurgencies that further disrupt economic life, stimulate increased illegal immigration to the United States, undercut the efforts of those seeking a democratic future, and threaten to create an unfavorable strategic situation for U.S. interests. And while political developments in the past few years in Nicaragua, Grenada, and Suriname depart strongly from democratic ideals, there are numerous encouraging examples of movement toward a democratic orientation in El Salvador, Honduras, Guatemala, Jamaica, and the Dominican Republic. Likewise, most of the Caribbean island nations remain democratic. Thus, in the Caribbean Basin region as a whole, there is a strong and growing affinity for democracy.

Overall, the United States has vital interests in the Caribbean Basin for economic, political, and strategic reasons. Although other nations such as Mexico, Venezuela, Colombia, and Canada provide assistance to the Caribbean Basin, the United States must shoulder the major responsibility for assisting in the development of democratic and stable societies in this region. Unfortunately, past American interest has been intermittent and usually in response to a crisis. The CBI is a notable effort to correct this shortsightedness and represents positive steps toward the development of a comprehensive, long-term U.S. commitment to help improve life in the Caribbean Basin. The current unfavorable economic situation in this region reinforces the natural need for U.S. action stemming from our various interests. On average, Caribbean economies are extremely small; therefore, without assured access to large external markets, investors would have little incentive to invest. Limited investment, coupled with a rapidly expanding population and movement of workers from agricultural areas to the cities all lead to increased unemployment, illegal migration to the United States, and growing poverty. These unfavorable circumstances have been magnified in the last few years by the worldwide recession which has meant falling prices for many exports of the Caribbean Basin, such as bauxite, bananas, coffee, and sugar. The recession has also cut into earnings from tourism. The combination of declining export earnings, very high costs for imported oil and interest on foreign debts has created an urgent need for Caribbean Basin nations to increase their exports.

The CBI, by concentrating on improving Caribbean economies, is an important first step in developing a viable U.S. policy for the Caribbean Basin. H.R. 2769, will provide duty-free entry for many Caribbean Basin exports to the United States over a 12-year period and will help create the needed economic stimulus. It will also strengthen free enterprise in the area by enlarging investment opportunities. Over a period of several years, increased access to the U.S. market will help Caribbean Basin nations diversify their economies, provide increased employment opportunities, and help create a middle class—the basic source of support for democracy. Economic improvement in the Caribbean Basin will also decrease the "push" factor of illegal migration to the United States, as well as, mitigate somewhat the conditions conducive to leftist insurgency.

Although the expansion of free trade promoted by H.R. 2769 is highly desirable, it will be of only modest size. Presently, about 88 percent of Caribbean Basin exports to the United States enter duty-free. This legislation will increase this percentage by only a few points. From the U.S. vantage point, the overall effect will be miniscule. In fact, had the provisions of H.R. 2769 been in effect during 1982, they would have applied to only 0.25 percent of all U.S. imports.

The American Legion regards H.R. 2769 as an essential element of the CBI. Despite their modest impact, we believe the free trade provisions established by this legislation are complementary to the increased economic and security assistance proposed in other legislation. We urge this Committee to favorably report the free trade provisions of H.R. 2769. While this measure will represent economic benefits to the nations of the Caribbean, it will also symbolize the reinforced determination of our nation to help our friends achieve a more prosperous and satisfying life.

Clearly, this legislation will serve to enhance the achievement of U.S. political, economic, and security objectives in the region.

64TH NATIONAL CONVENTION OF THE AMERICAN LEGION HELD IN CHICAGO, ILL., AUG. 24-26, 1982

Committee: Foreign Relations.
Subject: Caribbean Basin.

RESOLUTION 484

Whereas, Soviet-Cuban aggression continues to increase in the Caribbean Basin; and

Whereas, the Soviet Union is supporting a massive buildup of communist military forces and bases in Cuba, Granada and Nicaragua; and

Whereas, the Caribbean Basin nations continue to suffer underdevelopment and economic chaos; and

Whereas, the Government of the United States now has properly recognized vital U.S. interests in the Caribbean Basin, the communist threat, and the area's serious economic plight; and

Whereas, the Government of the United States has started to enunciate a more comprehensive policy based on the Caribbean Basin Initiative and increased military assistance; now, therefore be it

Resolved, by the American Legion in National Convention assembled in Chicago, Illinois, August 24, 25, 26, 1982, that the Administration be urged to enlarge the Caribbean Basin Initiative into a true "Marshall-type-Plan" for the area, including greatly increased funding over a number of years; and, be it further

Resolved, that the U.S. Government be urged to develop adequate military and intelligence capabilities to accomplish its objectives in the Caribbean Basin; and, be it further

Resolved, that the U.S. Government be urged to support increased educational exchanges between the United States and the Caribbean Basin nations; and, be it finally

Resolved, that the American Legion should inform (through The American Legion Magazine, other Legion publications, and other means of communication) the American public and Congress of vital U.S. interests in the Caribbean Basin and the need to pursue them vigorously.

AMERICAN WATCH ASSOCIATION,
Teaneck, N.J., June 16, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: The American Watch Association [AWA] is gravely concerned that enactment of Caribbean Basin Initiative [CBI] legislation (H.R. 2769) will cause serious injury to the U.S. watch industry unless safeguards are adopted. Although the AWA would prefer exclusion of watches from CBI as proposed by Rep. Gephardt in H.R. 2819, should such exclusion be unobtainable, the enclosed proposal suggests two legislative amendments to H.R. 2769 that provide important safeguards to the American industry.

The AWA is a trade association representing approximately 40 member and associate member U.S. companies which are engaged in the importation, assembly or manufacture of watches, watch movements and/or watch parts for sale in the U.S. and world markets. Members of the AWA include the companies that market such well known brands as Baume & Mercier, Bradley, Bulova, Casio, Citizen, Concord, Girard-Perregaux, Hamilton, Helbros, Longines, Movado, Omega, Piaget, Pulsar, Rado, Rolex, Ronda, Seiko, Waltham, Wittnauer and many others.

CBI incorporates watches in the scheme to provide duty-free entry of articles from beneficiary countries of th Caribbean Basin. Because the watch industry is (i) highly labor intensive and (ii) amenable to being established in new locations in a short period of time, CBI can be expected to quickly damage the U.S. watch industry in three significant respects:

(1) CBI will divert offshore the remainder of the U.S. watch industry—particularly, the important American case and bracelet industry segments—where low wages and duty-free import privileges will prove an irresistible magnet;

(2) CBI will be especially attractive to watch-producing countries—such as the Soviet Union, one of the world's largest—that do not enjoy MFN tariff treatment. The column 2 rates of duty on watches and watch parts (particularly, watch bracelets) are high, so that duty-free treatment for column 2 countries would be a bonanza. Moreover, because column 2 countries have non-market economies, they are capable of manipulating prices to avoid the CBI 35 percent minimum content test. Indeed, CBI could very well become a funnel for column 2 country imports into the United States—a perverse result for a program that seeks to foster democracy and deter communism in the Western Hemisphere;

(3) CBI will almost certainly destroy the watch assembly industries in the Virgin Islands and Guam where watch assembly standards are a prerequisite for duty-free treatment, thus subverting the legislative relief endorsed in 1982 by Congress and the administration.

For these reasons, watches should be excluded entirely from CBI as proposed by Representative Gephardt in H.R. 2819, just as they always have been excluded from the Generalized System of Preferences [GSP]. In the 1974 Trade Act (§ 503c) Congress specifically excludes three groups of articles from GSP: textile and apparel, certain footwear, and watches. Of these, only watches are included under CBI, a particularly unjustifiable inconsistency in view of the damage that CBI will cause to the American watch industry.

Although preferable, if exclusion of watches is not possible, two separate amendments to CBI (drafts of which are attached) are necessary to resolve the critical problems noted above:

(1) The exclusion from CBI of column 2 country watches; and

(2) The addition to CBI of a minimum assembly test comparable to the test applied to the Virgin Island watch assembly industry.

Respectfully submitted,

BERTRAM S. LOWE, *President.*

PROPOSED AMENDMENTS TO H.R. 2769

Subsection 103(b) of H.R. 2769 is hereby amended by deleting the word "or" after subsection 103(b)(3) and adding at the end of subsection 103(b)(4) the following:

"(5) Watches and watch parts (including cases, bracelets and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which TSUS column 2 rates of duty apply; and

"(6) Watches and watch parts (including cases, bracelets and straps) of whatever type including, but not limited to, mechanical, quartz digital or quartz analog which are not assembled in a beneficiary country in accordance with the same assembly criteria established by the Secretaries of the Departments of Commerce and the Interior under TSUS Headnote 6 of Schedule 7, part 2, subpart E."

ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA,
Washington, D.C., June 6, 1983.

AN OPEN LETTER TO THE HOUSE WAYS AND MEANS COMMITTEE

The Association of American Chambers of Commerce in Latin America (AACCLA), whose 21 American Chambers of Commerce members represent 18,000 U.S. and local firms and businessmen throughout the region, urgently requests passage of the trade and investment incentives of the Caribbean Basin Initiative program early in the 98th Congress.

AACCLA is extremely concerned about the economic situation in Central America and the Caribbean and the detrimental effect upon U.S. national interests if economic conditions continue to deteriorate. While the emergency foreign assistance to this region approved in the last Congress was most welcome, AACCLA believes that the trade and investment incentives of the CBI will complement this assistance and have an even greater impact encouraging the private sector to act as the engine of economic development.

The CBI countries are important markets for U.S. manufactured goods and services. To help strengthen their economies is to increase their purchasing capability; and since U.S. companies are their main suppliers, these have much to gain.

AACCLA seeks your support in helping the region help itself. American Chambers of Commerce in the region have requested me to transmit the attached telexed

letters to you urging passage of the CBI trade and investment incentives as a solution.

Sincerely,

JOHN T. PLUNKET, *President.*

COSTA RICAN AMERICAN CHAMBER OF COMMERCE.

OPEN LETTER TO THE U.S. HOUSE OF REPRESENTATIVES, WAYS AND MEANS COMMITTEE

The Costa Rican American Chamber of Commerce first of all thanks the Government and the people of the United States for the generous help already given to Costa Rica.

On our own behalf and that of our area neighbors we urge most strongly the passage of the Caribbean Basin Initiative with the minimum possible number of exceptions to duty-free import status of area goods to the United States.

This bill is vital for Costa Rica and all of Central America and is an opportunity to help us help ourselves. We also feel the bill is of long-term benefit to the United States.

The package contains provisions such as the tariff exemptions which are not out-of-pocket expenses. Over time all CBI aid will prove much less costly than the loss of U.S. security or the military aid and refugee assimilation problems which will inescapably follow if current trends of economic and political deterioration are allowed to continue.

JAY C. FERNANDES, *President.*

MEMBERS, WAYS AND MEANS COMMITTEE,
U.S. House of Representatives,
Washington, D.C., U.S.A.

The Amcham Dominican Republic strongly urges passage CBI without further product exemptions. Passage of this bill is extremely important for the morale of this country as well as its future economic success.

WILSON A. ROOD,
Amcham, Dominican Republic.

AMERICAN CHAMBER OF COMMERCE OF EL SALVADOR.

OPEN LETTER TO WAYS AND MEANS COMMITTEE OF HOUSE OF REPRESENTATIVES

We at the American Chamber of Commerce of El Salvador continue to urge favorably passage of the CBI program (House H.R. 2769) as it is an extremely positive initiative that will provide these countries with a tool to build stronger economies. This in turn will provide the much needed social improvements for the large underprivileged sectors of these societies. Let us not forget the fact that it will place the United States in an advantage of maintaining itself as the largest trading partner with the region and provide a very real increase in the trade both ways.

We further urge that the initiative not be weakened by adding further exemptions for the duty-free treatment list.

We compliment the Ways and Means Committee of the last Congress for their timely support on the CBI and anticipate that same wisdom will be forthcoming at this time as well.

HARLOW F. NEWTON, Jr., *President.*

OPEN LETTER TO MEMBERS OF HOUSE WAYS AND MEANS COMMITTEE

Amcham, Guatemala strongly urges prompt action and passage of H.R. 2769 (the CBI bill). Historical strength of U.S.A. lies in encouraging free enterprise and free trade. The fewer from duty-free treatment and other restrictions, the stronger the message to this area and the world that the United States is continuing its commitment to freedom by supporting the democratic capitalistic system. It is much better to help these countries rather than to give away aid. As these countries rebuild their economies they will become stronger markets for the United States.

JOHNSON, *Amcham, Guatemala.*

OPEN LETTER TO WAYS AND MEANS COMMITTEE MEMBERS

The Haitian American Chamber of Commerce and Industry joins AACCLA and the U.S. Chamber to emphasize that although the passage of the emergency foreign assistance bill offers the best opportunity to help the region and Haiti in particular to help itself, with the private sector acting as the engine of economic development. We, therefore, strongly urge the passage of H.R. 2769 and stress the importance of avoiding any further product exemptions for duty-free treatment.

Best regards,

J.P. MANGONES, *Hamcham.*

Re Passage of CBI.

Congressional passage of the CBI legislation is urgently needed. The Soviet Union and its surrogates are engaged in a well-funded campaign to weaken the economies of the Central American and Caribbean nations and create trouble between them and the United States. Support is essential to the economic development of the Central American and Caribbean nations. Such support will contribute toward cementing strong hemispheric relations. If it is not given in economic aid such as free trade, the United States may be forced to give it in military help in order to defend its national interests.

As these nations develop, there is a very positive impact on U.S. exports. The process of development stimulates demand for U.S. goods and services. It should be noted that the developing world has become a huge market for U.S. exports and services.

Any further product exemptions from duty-free treatment may do more harm than good. There undoubtedly will be a psychological letdown among the business communities and heads of state if more products are exempted, giving way to the old feeling of U.S. paternalism.

These nations which are U.S. allies should be dealt with on a basis of dignity and mutual respect.

GUILLERMO HERNANDÉZ, *Amcham Honduras.*

Please convey the following open letter to members of House Ways and Means Committee on behalf of American Chamber of Commerce and Industry of Panama and its memberships.

Amcham Panama strongly urges passage of H.R. 2769, stressing importance of avoiding any further product exemptions from duty-free treatment. We feel that CBI legislation will assist the region's economic development and provide the necessary stability required for this important region having direct impact on the economic and security aspect of the United States and the preservation of the free enterprise system.

Most respectfully,

A. G. DE LA REZA, *President.*

STATEMENT OF JOHN P. OLINGER, ON BEHALF OF BREAD FOR THE WORLD

Bread for the World, a Christian citizens' movement that supports government policies concerned with world hunger, appreciates the opportunity to submit this statement to the Committee on Ways and Means. This statement will address two aspects of the Caribbean Basin Initiative: the Stable Food Production Plan, section 103(c) of H.R. 2769, and the human rights provisions included in Representative Richard Gephardt's Caribbean Basin bill, H.R. 2819.

The Caribbean Basin Economic Recovery Act (H.R. 2769) represents an important step in the U.S. approach to the economic problems of developing countries. This initiative recognizes the necessity of pursuing a policy linking trade and development programs. Bread for the World has actively supported U.S. development assistance programs which are designed to meet the basic needs of poor and hungry people in developing countries. The same concern that has led Bread for the World to examine the effects of U.S. aid policies on poor and hungry people also leads us to look at U.S. trade policies toward developing countries. In this respect we have paid particular attention to the Caribbean Basin Initiative since it was first introduced by President Reagan last year.

There can be no doubt that the countries in the Caribbean region face a severe economic crisis. This is seen most dramatically in the sharply increasing international debt of the countries. It has been estimated that the region will need $4 billion—almost 10 percent of the regional gross domestic product—to meet its debt payments alone.

Most of the countries are heavily dependent on exports of agricultural commodities such as sugar, coffee, beef, and fruit to the more developed countries. The earnings from this agricultural trade have been used to finance economic development programs as well as the wide range of manufactured imports that the countries need. Some countries, such as Trinidad and Tobago, Guyana, and Jamaica, have exploited mineral resources, but there has been little industrial development in the region.

In the 1970's the world market for many of these agricultural commodities was unstable, while at the same time the world price for oil and for manufactured goods from industrialized countries rose sharply.

When the prices of agricultural commodities declined, or rose less rapidly than the prices of oil or manufactured goods, the Caribbean countries had to produce and export more commodities just to maintain the ability to pay for existing levels of imports. Any possibility of expanding efforts for economic development had to be reconsidered in the light of the unfavorable world market for export crops.

The economic stagnation that began in the 1970's brought to the surface tensions arising from the more fundamental social and economic problems in the region. Many countries face social problems such as widespread poverty, malnutrition, high infant mortality and illiteracy. Economic problems include inequitable land distribution and heavy dependence on exports of primary commodities.

A large portion of the population in the region receives incomes below the absolute poverty level. The World Bank has defined the absolute poverty level as the income level below which a person cannot afford a minimal nutritionally adequate diet and essential nonfood items such as clothing and shelter.

Not surprisingly, this poverty is accompanied by high levels of malnutrition. The group of experts convened by the Caribbean Council of Ministers estimated that 44 percent of the Caribbean population do not obtain the minimum recommended levels of protein and 56 percent do not obtain the minimum recommended calorie requirements.

Poverty and malnutrition in the area are rooted in the unequal distribution of resources, in particular land. In the rural areas many people have no access to land or have access to only small amounts of land that are insufficient in either size or quality to meet their needs.

A Cornell University study in 1978 estimated that in Guatemala 85 percent of rural households were either landless or had inadequate land resources. In El Salvador the comparable figure was 80 percent, in the Dominican Republic 68 percent and in Costa Rica 55 percent.

In the eight countries in the region for which data are available, farms of 125 acres and larger represent only 2.2 percent of the total number of farms, yet account for 62.3 percent of all farmland. Because these societies are based primarily on agricultural activity, such inequalities in land ownership seriously undermine the prospect for equitable economic growth and the reduction of hunger.

Unfortunately, there has been a tendency to overlook the potential effects of the Caribbean Basin Initiative on agricultural production, and in particular local food production in the region.

As originally drafted, the Caribbean Basin legislation's trade provisions had the potential to reinforce the already strong orientation toward export crop production of the economies in the region, thus reducing the resources available for domestic food production. The possible diversion of productive resources, especially land, to cattle and sugar production could have serious adverse effects on the poor and hungry people in the region.

For this reason, Bread for the World strongly supported the efforts of Representative Thomas Downey to address the problems of domestic food production when the Ways and Means Committee considered this legislation last year. Representative Downey's Land for Food amendment was included in the version of the bill passed by the House in December 1982. This provision now appears as section 103(c) of H.R. 2769.

Section 103(c) makes duty-free treatment for sugar and beef products conditional on the recipient country's implementation of a Stable Food Production Plan. The intent of the plan is to ensure that increased production of sugar and beef in response to CBI's tariff incentives does not occur at the expense of current levels of food production or the nutritional health of the population.

Within 90 days of receiving duty-free treatment, the recipient country would have to implement a Stable Food Production Plan that would include the following points:

(i) current levels of food production and nutrition among the population;

(ii) current levels of production and export of beef and sugar;

(iii) projected increases in production and export of beef and sugar;

(iv) measures to be taken to ensure that expanded production of these products in response to duty-free treatment does not occur at the expense of food production; and

(v) a proposed system to monitor the impact of duty-free access on food production and land use and land ownership.

The President would monitor the plan and its implementation and would suspend duty-free treatment if the country does not produce an acceptable plan within 90 days, or if the President determines that the country is not making a good faith effort to implement the plan, or if the proposed plan is not achieving its purpose. If the country takes remedial action, the President does not have to suspend duty-free treatment. Finally , the President will report to Congress on the implementation of section 103(c) every 2 years.

The Caribbean Basin countries are already increasing their imports of agricultural products, mostly basic foodstuffs, to make up for shortfalls in domestic staple food production. These imports consume a large part of the scarce foreign exchange available to them. In 1980, the Caribbean region imported $736 million worth of food from the United States, which accounted for over half of the region's current account deficit of $1.4 billion. Food imports in the Caribbean are projected to double by 1985. In 1980, Central American countries imported over $400 million in foodstuffs, and food imports are projected to triple by 1985. Unless current levels of food production are maintained, the situation could become much worse.

Representative George Brown highlighted this problem last August in his statement at the joint hearings on "Agricultural Development in the Caribbean and Central America" before the Subcommittee on Inter-American Affairs and the Subcommittee on Department Operations, Research, and Foreign Agriculture:

"Many countries in the Caribbean and Central America have made a transition from being net exporters of food to becoming major importers of basic staples. This is not a reflection of any kind of economic comparative advantage, and it would be terribly short-sighted to view this development as a plus for the United States on account of our increased farm exports to the region. It is instead a reflection of a stagnant or declining agricultural sector, as evidenced by mounting foreign debts that they cannot begin to service."

There is evidence that in recent years local lands have been taken out of food production and replaced by sugar or cattle production. In the Dominican Republic during the sugar boom of the mid-1970's, small farmers and contract sugar growers began to plant sugar on marginal land previously used to grow food crops, in order to take advantage of high sugar prices. Despite the fact that sugar prices have not remained high and that there is a glut on the world sugar market, many of these farmers have not abandoned sugar production largely because support services, such as marketing, storage and credit, are not as well developed for other crops, particularly food crops.

In southern Honduras, large-scale cattle ranching has steadily expanded at the expense of small farmers growing staple food crops. These small farmers have been pushed onto marginal land which they have cleared and farmed. As cattle raising expanded further, in response to a growing U.S. market, this newly cleared land was put into pasture and the farmers were forced to move on. Despite an agrarian reform program, little has been done to aid these farmers by providing them with support services such as credit. Yet increased credit to the cattle industry has aided the expansion of cattle raising.

Bread for the World does not oppose the production of export crops across the board. It does feel that the situation in each country must be evaluated on its own merits. Factors that need to be weighed are the prevalence of hunger and malnutrition, the staple food production capacity of the economy and land distribution. Expansion of export crops may pose no problems in countries with an adequately fed population and equitable land distribution. The determining factor ought to be how many people are being adequately fed.

Section 103(c) addresses these problems in a flexible manner. Without safeguards for domestic food production, the duty-free treatment for sugar and beef could have the effect of shifting more land from local food production to production of beef and sugar for export. This would have a serious effect on the available food supply for the local population who would become increasingly reliant on more expensive imported food. It would also place a serious strain on the foreign exchange situations of these countries.

Section 103(c) is consistent with the spirit of President Reagan's Caribbean Basin Initiative. It uses duty-free treatment and increased access to the U.S. marketplace as an incentive to encourage to protect and develop their domestic food economies.

When President Reagan introduced his initiative he said "Before granting duty-free treatment, we shall discuss with each country its own self-help measures." Bread for the World feels that it is important to include provisions to protect staple food production in these self-help measures.

Bread for the World would like to address briefly the section of H.R. 2819, introduced by Representative Richard Gephardt, which deals with human rights and workplace conditions. This section would deny designation of a country as a beneficiary of the CBI if its government denies its people human rights protections or, more specifically, its workers the right to organize and bargain collectively and safe workplace conditions.

We feel that Representative Gephardt's human rights provision is crucial and ought to be included in any version of the CBI which is passed. The CBI has been proposed as a means of stimulating economic growth and increasing employment in the region. There may well be benefits in the immediate term for workers, either in agriculture or industry, in terms of jobs. But in the longer term the ability of these workers and other members of society, particularly the poor and unemployed, to share in the general benefits provided by increased trade will depend as much on the ability of these people to defend their own interests as it will on the trade benefits themselves.

The contrasting situations of Jamaica and Haiti demonstrate the importance of human rights in regard to poor people's ability to benefit from economic growth. Jamaica has had a strongly democratic tradition which has stressed human rights and has been closely tied to a strong labor movement. Haiti on the other hand has had a poor record with regard to human rights and has lacked a strong labor movement. Not surprisingly, Jamaica has one of the lowest infant mortality rates, 20 per 1000, while Haiti has one of the highest in the region, 130 per 1000. While there may be many reasons for the great disparity between these two countries, the Jamaican experience would seem to indicate that where governments are more responsive to human rights considerations the people are more likely to reap the benefits of economic growth.

Bread for the World feels that any increased income to the Caribbean countries resulting from the Caribbean Basin Initiative should benefit all the people in the area. Under existing political situations in a number of countries in the area, this will not be the case primarily because the poor have been systematically excluded from the political process. In some instances, leaders of poor people, community organizations and unions have been imprisoned or killed when they have stood up for their rights. Under these circumstances it is unlikely that the benefits of the Caribbean Basin Initiative will reach the majority of the people.

With regard to the right to organize and fair labor standards, there is an additional element of justice for the U.S. worker. The attraction of the Caribbean Basin to many businesses is in large part due to the low wages paid in the area. In cases where denial of human rights and failure of government to protect workers' rights to organize are prevalent, then the low wages are artificially induced and maintained. We do not believe that the comparative advantage of any country or region should be built on repression of poor and working people. If production in the Caribbean Basin is attractive because of the absence of human rights and fair labor standards then the U.S. worker is being made to pay a high and unfair price for his or her hard won labor rights. We are not saying that the U.S. worker should be protected from fair competition of goods produced by foreign workers, but we must ask whether the U.S. Government should be offering trade preferences to countries which do not allow their workers to organize and do not guarantee basis human rights.

Representative Gephardt's human rights provision offers the United States the opportunity to support the legitimate rights of people to organize. By adopting this provision Congress would be saying to workers in the Caribbean that the United States does not want to import goods made under compulsion by impoverished people. It would be saying that the United States does not want to benefit because people in other countries are being denied the rights accorded to citizens of this country. Bread for the World urges the committee to adopt Representative Gephardt's human rights provision.

Statement of Walker A. Williams, Executive Director of the Caribbeana Council

To the chairman and members of the committee: As executive director of the Caribbeana Council, a Washington, D.C.-based nonprofit private voluntary organization,

I am writing in support of H.R. 2769. Based on years of experience in facilitating economic recovery programs in the Caribbean, I am moved to be most enthusiastic about the symbolic and pragmatic benefits of this act, for the reasons presented below. below.

First, let me state that the Caribbeana Council was established in 1977 for the purpose of promoting and developing Caribbean/American relations and commerce. Our intent is to harness the energy, vitality, and resources of the Caribbean by coordinating tangible projects of benefit to both the United States and the developing Caribbean nations.

We at the Council strive to promote a "good neighbor" policy by encouraging a strong economic base within a free-enterprise network. The programs of the Caribbeana Council have these long-term goals:

Increased and improved relations between the Caribbean and the U.S. public and private sectors;

Increased private sector support for the economic and social growth of the Caribbean nations; and

The formation of a network of business people, communicators, academicians, government officials, and others interested in fostering good relations between the United States and the Caribbean.

Our concern and focus is primarily with the English-speaking windward and leeward islands of the Caribbean, and, in addition, with Jamaica, Haiti, and the Dominican Republic. Through our offices in Washington, D.C. and in Barbados, we concentrate on programs which directly and positively affect the small island economies by increasing employment, local food production, self-sufficiency, and social services.

Current and past programs of the Council include: The Barbados Blackbelly Sheep Project, which created a business plan for the establishment of a full-scale, commercial, indigenous meat industry, the first on the island. When established, this would not only improve protein consumption on the island but would also be self-sufficient because of locally produced feed, and would spawn several cottage industries, increasing employment in several important ways.

Provide a full range of business services to U.S. minority entrepreneurs and Caribbean entrepreneurs who desire to expand their current markets of diversify their product bases through export/coventure activities.

Respond to the growing food shortage and nutritional deficiencies in the Caribbean by conducting a community vegetable garden feasibility survey and demonstration project in Antigua.

Host a communications conference for 22 Caribbean journalists, which taught advanced classes in financial and investigative reporting, and which became the nucleus of a movement to create more of an inter-regional communications infrastructure.

Working with the Peace Corps to train Peace Corps Volunteers in conducting prefeasibility studies which will lead to full, fundable business plans in the field of agriculture.

Establishing a Caribbean Center in the Washington, D.C. office which will enhance communications within and about the Caribbean for the purpose of achieving economic development through a heightened awareness of needs and opportunities.

These are just a few of the ways the Caribbean Council works at the grass-roots level to improve the economies of the English-speaking region of the Caribbean.

Having worked on these programs we have become aware of the great diversity of these countries: geographically, economically, socially, and culturally. Each of the twenty-eight countries and territories designated as candidates for special trade considerations in H.R. 2769 have unique problems and opportunities which should not be minimized. The regional approach implied by the term "Caribbean Basin" and "Caribbean Basin Initiative" in some ways does not do justice to the differences which the West Indians feel very acutely. Competition between these countries, and national pride within them, is very real and should not be ignored. In fact, it is our experience that the West Indians themselves do not take a regional approach to solving problems, and that more dialogue of a North/South nature is common than is that of an inter-island nature.

There are many problems which are shared, however, and some of these problems also contribute to the isolation which each Caribbean nation feels in relation to its neighbors in the region. But because these problems are shared does not mean that there are common solutions. Although it is more painstaking to distinguish and approach each island's situation individually, some attention should be paid to the need to do just that.

Some common problems of the region, which the current bill attempts to solve, and which must be resolved if the region is to escape from its current volatility, include:

UNEMPLOYMENT

This is the critical problem of the area, exacerbated by many other factors cited below. It is especially acute among West Indian males 20 to 30 years old, and is as high as 50 percent in some areas. Not only is this a tremendous waste of human resources, it is a potentially explosive situation. Idle young adults harass visitors, threaten the tourist trade, and have the potential to be even more harmful to the productivity of the nations, both directly and indirectly.

LACK OF ECONOMIC DIVERSITY

If these economies are to thrive, they must diversify. However, most have inherited one-crop economies and the legacy of colonialism. They have neither the infrastructure (roads, energy systems, communications systems) nor the capital to attract new businesses or to enhance existing ones.

WEAK PRIVATE SECTOR

Because of the colonial legacy, many businesses are owned by nationals of other countries. Consequently, the talented West Indians tend to work in the public sector, minimizing the business experiences and role models for other West Indians. The rich/poor dichotomy is continually aggravated in this way. We must ask how an awareness of business opportunities and the skills to take advantage of them can be built, and whether or not this will result in a more equitable distribution of goods and services.

LACK OF FOREIGN EXCHANGE

Diversification is nearly impossible without foreign exchange. But rather than address the problem by trying to reduce hugh balance-of-payments deficits (from the top), the focus should be more of a bottom-up strategy. Loans and investment capital should be targeted to the locally generated solutions to local problems.

NEED FOR AGRICULTURAL DIVERSITY

Currently, islands with a great deal of tourism expend their currency to import food which primarily benefits tourists. There needs to be more import substitution using locally grown foodstuffs, not only for consumption by tourists, but to improve the protein intake of the nationals. These needs are complicated by established trading companies which dominate the agricultural economies and which control the flow of goods both inter-regionally and internationally.

Solutions are not as easy to state as are problems. If we do not act, however, a difficult situation will only be worsened. I do not need to belabor the point that economic deprivation breeds economic chaos; and that political instability is fed by economic instability. Our challenge must now be to speed up the economic development of the individual West Indian in individual West Indian nations.

Some of these solutions include: Improving communications and transportation systems in the region. There is a need for increased interaction among countries of the region so that new markets can be established. Currently, it is easier for a farmer to ship his goods to Miami than it is to reach any of the islands in the Caribbean Basin.

Local meat industries should be developed to improve the health of the populations through increased protein self-sufficiency.

Business infrastructures needs to be strengthened. West Indian immigrants to the United States could be invaluable in identifying and nurturing small businesses in the Caribbean. U.S. enterpreneurs can do a great deal to stimulate new small and medium-scale businesses in the region.

Increasing cooperation between concerned American federal agencies, which will increase the efficiency of our actions. Our training program for Peace Corps Volunteers, for instance, helps identify local projects which could become self-sufficient.

Communications systems, both electronic and print, need to be established, and a free press needs to be encouraged.

Regional meetings of transportation ministers and private shippers should be initiated, so that problems which seriously affect the economies of the islands can be resolved.

Make Americans aware of issues concerning the region. If entrepreneurs and the general public here recognize the needs and opportunities in the Caribbean, they will be able to respond realistically. Diverse relationships and investments should result.

Last year's Caribbean Basin Initiative Economic Recovery Act had a tremendous positive effect in the region. It illustrated the U.S. recognition of the problems and concerns of the region, and showed our willingness to address them. It was a good beginning, and recognized in the region as just that. Unfortunately, only the aid portion passed the house and there was not sufficient time for the bill to pass in the Senate.

The current bill is an opportunity to address not only the aid portion, but to meet the more pressing needs as seen by the West Indians—that of trade and investment. From both a symbolic and pragmatic sense it is imperative that it be passed, if not only to keep the momentum going. The United States cannot risk a reversal; we cannot abandon the democratic governments bolstering the region.

In addition, we have to resist protecting all of the industries which feel threatened by this bill. We should withstand the special interest lobbying which occurs because of an imagined threat. There are a number of safeguards built into the legislation which could end duty-free imports if a real threat becomes apparent; there is no need to assume up-front that such threats will be forthcoming.

We should also try and make sure that any future aid deals with immediate as well as long-range needs of these countries.

Lastly, there should be mechanisms which involve United States and indigenous private voluntary organizations in the development process. PVO's address real needs on a people-to-people basis. They are cost efficient, can respond quickly to changing needs, and can provide technical assistance where needed without being encumbered by large bureaucracies. In addition, PVO's are able to leverage public monies with private contributions, building a broader philanthropic base to support development activities. I would also caution that funds should be directed to newer and less established PVO's, which can often suggest creative solutions to problems.

The Caribbean Basin Initiative, and H.R. 2769, should not be seen as the sole approach to a problem as large as that confronting this Hemisphere. It needs to be positioned as part of a larger overall strategy to building strong alliances internationally.

Thank you very much.

CHAMBER OF COMMERCE OF THE
UNITED STATES OF AMERICA,
Washington, D.C., June 1, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: On behalf of the U.S. Chamber of Commerce, I appreciate the opportunity to express support for the Caribbean Basin Initiative (CBI) as incorporated in H.R. 2769, now before the Committee on Ways and Means.

The Chamber's Board of Directors, on November 10, 1982, endorsed the trade incentive provisions of the bill then before the 97th Congress. H.R. 2769 is essentially the same proposal and the Chamber reaffirms its support.

The Chamber Board's action last November was based on a careful assessment of the CBI's costs and benefits. Reflecting the wide range of interests among our more than 220,000 members, the Board was concerned initially that the foreign policy and other benefits of an economically resurgent Caribbean Basin might involve unacceptable costs in terms of American production and jobs. The Board concluded, however, that forthright action was imperative on several counts. More than six months later, the situation is now even more pressing.

First, a stable and prosperous Caribbean Basin is politically valuable to the United States. Communist influence thrives in economic chaos and the lack of hope this engenders. It is, therefore, in our own best security interests to ensure that our close neighbors in the region are healthy and prosperous.

Second, access to the U.S. market has been identified by Caribbean nations as the top priority factor for their economic development. This access is provided in the duty free title of the bill and provides the best long term prospects for economic growth by basing the program on a policy of self-help. The deficiencies in the region's economic infrastructure, which have seriously inhibited private sector enterprise, will be effectively addressed by the emergency economic assistance package approved by Congress last year.

Third, the new wave of private enterprise-oriented political leaders in the region would be embarrassed by the Initiative's failure: their opponents want it to fail.

Fourth, H.R. 2769 provides adequate safeguards against disruptive surges of imports from the region. Moreover, it would be several years before significant new trade activity would result, by which time U.S. economic recovery should be firmly established.

Fifth, duty free treatment under the act would not be permanent, but only for a period not to exceed 12 years after enactment. Excluding petroleum products, the U.S. had a $2.9 billion trade surplus with the region in 1982, a 50 percent increase over 1980. This trade could grow further as a revitalized region provides even better market opportunities for American exporters.

Sixth, the development of economic opportunities in the region is the one sure way to diminish the U.S. problem of illegal immigration.

To summarize, the Caribbean Basin is very definitely in the U.S. backyard, a reality which justifies the degree of precedent-breaking action implicit in the Initiative. H.R. 2769 provides an opportunity to assert U.S. leadership and concern in a way that is both effective and based on the time-proven principle of self-help.

I will appreciate your consideration of our views and inclusion of this letter in the hearings record.

Cordially,

HILTON DAVIS.

STATEMENT OF THE CIGAR ASSOCIATION OF AMERICA, INC.*

The Cigar Association of America believes that enactment of the Caribbean Basin Economic Recovery Act is in the national interest and therefore hopes that the bill will be favorably reported by the committee. We see this legislation as a much-needed program to promote economic development and political stability among our neighbors in the Caribbean and in Central America, and to strengthen U.S. relationships in the area. We believe the legislation would also benefit the U.S. economy by expanding the regional market for U.S. exports and by reducing the cost of regional inputs in U.S. manufactured products.

Under the trade provisions of the bill, duty-free treatment would be extended to most of the products grown or manufactured in Caribbean Basin beneficiary countries. These would include cigar tobaccos and cigars provided for in Schedule 1, Part 13 of the Tariff Schedules of the United States, as follows: cigar wrapper tobacco (TSUS items 170.10 and 170.15), cigar filler tobacco (TSUS items 170.20, 170.25, 170.40 and 170.45), cigar scrap tobacco (TSUS item 170.60), and cigars and cheroots (TSUS items 170.68 through 170.72).

The nations of the Caribbean Basin are important sources of supply for premium cigars and cigar tobaccos for the U.S. cigar industry. Most of the premium cigars imported from that region come from Jamaica, the Dominican Republic, Honduras, Costa Rica, and Nicaragua. Wrapper tobacco imported from the region comes mostly from Central America. Such wrapper tobacco is used primarily by U.S. premium cigar manufacturers which are concentrated in the area of Tampa, Florida. Cigar filler tobaccos are grown both in Central America and the island nations of the Caribbean. Such tobaccos are imported by U.S. cigar manufacturers for blending with different varieties of filler tobaccos from foreign and domestic sources for use in cigars. At the present time about 20 percent of all cigar tobaccos imported come from Caribbean Basin sources.

Cuban premium cigars have had an unmatched reputation in world markets for many years. However, the traditional Cuban dominance in hand-made cigars is not inviolate, nor should it be. Since the Castro takeover in Cuba there are many Cuban expatriate cigar-makers now working in the Southeastern United States, in Central America, and in the Caribbean. Moreover, the making of hand-made cigars and cigar usage have strong roots in many of those areas. In our view, there is a real potential that premium cigars made in the Southeastern United States and in friendly Caribbean Basin countries can supplant Cuba as the premier producer of hand-made cigars in the world. Passage of H.R. 2769 would contribute significantly to the realization of that potential by increasing the international competitiveness

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*The Cigar Association of America is a nonprofit organization representing domestic cigar manufacturers, as well as suppliers, importers and distributors in the cigar business, accounting for more than 90 percent of the large cigars sold at retail in the United States. Large cigars are defined as those weighing more than 3 pounds per thousand.

of premium cigars manufactured in the region. This would be beneficial not only to our trading partners in the Caribbean Basin, but also to the United States.

Duty-free treatment for cigars would help U.S. cigar companies which have operations in Caribbean Basin countries. Duty-free treatment for wrapper tobacco, cigar filler tobacco and cigar scrap tobacco would lower the cost of raw materials for cigars manufactured in the United States. In each case the savings would be significant because the column 1 duty rates for these products are relatively high. Furthermore, since both imported cigars and the raw material used in U.S. cigar production would be duty-free, the competitive balance between imports and domestic products would be maintained.

Section 103(a)(2) of the bill is designed to disqualify products subjected only to minor operations from receiving duty-free treatment. We believe that section 103(a)(2) should be strengthened to make it clear that the mere alteration of tobacco (or any other agricultural commodity) from one unmanufactured form to another is one of the excluded minor operations. In our view the provision does not now clearly exclude the mere stemming, stripping or similar alterations performed on tobacco in accordance with the intent expressed in a colloquy on the House Floor between Trade Subcommittee Chairman Gibbons and Congressman Rose in the 97th Congress.[1] In that colloquy Chairman Gibbons stated:

"It is the committee's understanding and intention that the prohibitions on mere combining operations and the requirement that there be a new and different article produced in the Caribbean would prevent any operation which merely changes tobacco from one unmanufactured form to another."

In that connection it should be noted that since 1973 a number of American cigar companies have set up operations in Caribbean Basin countries for the stemming (removing the mid-rib from the leaf) of wrapper tobacco grown in the United States. After being stemmed, these tobaccos are returned to the United States for use in the manufacture of cigars. Because the stemming is an alteration within the meaning of TSUS item 806.20,[2] the returned tobacco received favorable duty treatment under that provision which assesses a duty only on the value of the stemming. The Cigar Association believes that tobacco stemming and similar alterations within the meaning of item 806.20 should not also be eligible for favorable tariff treatment under the bill. Therefore, we strongly recommend that the committee explicitly provide that mere alterations of agricultural commodities are minor operations for purposes of the section 103(a)(2) limitation.

There would be no adverse effect on production or employment in the U.S. cigar industry, a conclusion that coincides with the findings of the U.S. Department of Agriculture in its 1982 report on the probable effects of the Caribbean Basin Initiative on the industry.[3]

In conclusion, we support H.R. 2769 with the clarifying amendment suggested herein, and hope for its early enactment.

[Date: July 18, 1980; File: CLA-2:RRUCSC; 064639 AI; 063440; 063328; 038641]

(C.S.D. 81-79)—Classification: Tobacco Stems Returned Under Separate Package

This is in reply to your letter of March 17, 1980, regarding the classification of tobacco stems resulting from a stemming operation performed in the Dominican Republic under the provisions of item 806.20, Tariff Schedules of the United States [TSUS].

You state that the stems resulting from the stemming process generally remain whole (bayonet type) and in this condition are bulky, difficult to handle, and require special packaging. In effect, you want to return part of a complete article exported for alterations under item 806.20, TSUS, separately, and under a different provision of law.

It is not disputed that the tobacco was orginally exported as full leaves for the purpose of undergoing the stemming operations. The stemming operation has consistently been held an alteration under item 806.20, TSUS.

The tobacco leaves in the present case were sent abroad for alteration. The exporter may not sever the article, claiming that only part of it has been altered and obtain duty-free entry of the other part claiming that it has not been improved in

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[1] See 128 Cong. Rec. H10164 (Dec. 17, 1982) relating to Caribbean Basin Economic Recovery Act.

[2] See Customs Service Decision 81-79 (copy attached).

[3] "Caribbean Basin Initiative: Implications for the U.S. Tobacco Industry", Tobacco, Cotton and Seeds Division, Foreign Agriculture Service (June 1982) at pp. 4 and 7.

condition or advanced in value. The ramifications of allowing entry under this procedure obviously contradict the intention of the exemption. Under this procedure, a complex and valuable article could be exported to undergo repairs or alterations. Once altered, the article could be served, however artificially into parts which have obviously been altered and parts which allegedly have not, with only the former being subject to duty. Preventing such segregation was the object of headnote 2(c), subpart B, part 1, schedule 8, which states that the proper basis for assessing duty is the rate applicable to the entire article

"The duty upon the value of the change in condition shall be at the rate which would apply to the article itself, as an entirety, without constructive segregation of its components, in the condition as imported if it were not within the purview of this subpart * * *."

The same article must be exported and returned. The only divergences allowed under item 806.20, TSUS, are those resulting from the repairs and alterations. Thus, if a new article is produced (*A. D. Deringer, Inc.* v. *United States*, 385 F. Supp. 518) or if the article is sent abroad to undergo repairs or alterations but actually undergoes more than repairs or alterations (*U.S.* v. *Merkowitz*, Abstract 40592 (1943)) it may not return under item 806.20, TSUS.

It is clear from the language of the provision, and from its legislative history, that item 806.20, TSUS, is applicable only to importations where the imported goods can be readily identified as the same articles, though repaired or altered, as those exported.

In order to aid this identification, section 10.8, Customs Regulations, has been promulgated. This section prescribes strict procedures whereby the articles are registered at the time of exportation (sec. 10.8(a)) and the person performing the repairs or alterations declares that the articles were received by him for the sole purpose of performing the repairs or alterations, and that no substitution of other articles has been made (sec. 10.8(e)).

Accordingly, the leaves and stems of the stemmed tobacco must be returned together in the same shipment under item 806.20, TSUS, in compliance with section 10.8, Customs Regulations.

STATEMENT OF CHARLES A. PERLIK, JR., CHAIRMAN, THE COUNCIL ON HEMISPHERIC AFFAIRS

The Council on Hemispheric Affairs is a non-governmental organization concerned with political, social and economic progress in Latin America and the Caribbean. Its Board of Trustees includes ranking officials of religious, professional and labor organizations, as well as members of Congress and individuals with wide experience in hemispheric affairs.

The Council generally supports the proposal in H.R. 2769 for wider tariff-free access to the U.S market by nations of the Caribbean Basin. However, the Council's position on the proposed legislation focusses on section 102(c)(8), which states that, "in determining whether to designate any country a beneficiary country . . . the President shall take into account:

(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively."

This is an excellent and innovative provision. It is a matter of human rights, the rights of workers in these countries. The rights of North American workers are involved as well—the right not to be subject to competition from the sweatshop conditions in some of these countries resulting from government-sanctioned terror against trade union organizations. Such conditions make a mockery of free collective bargaining, irrespective of what these nations' formal legislation might indicate.

Take Haiti as one example. Labor conditions and the harassment of labor organizers in that country are among the worst in the Western Hemisphere. Today, the leaders of four out of five labor unions launched in Haiti during the last two decades are in exile or living underground. The only surviving union is controlled by the Jean-Claude Duvalier government, and only one percent of the labor force is organized. Even in the apparel and electronic assembly industries, the most profitable sectors of the Haitian economy, the minimum daily wage is $2.64, a figure seldom met in practice.

The condition of labor unions in Guatemala is even grimmer. An official Department of Labor report describes the situation as follows:

"Intimidation by left- and right-wing terror, particularly the latter . . . inhibits the development of strong, independent unions and few exist . . . the assassination

or abduction or more than 80 trade union leaders and activists by unidentified assailants in 1980 . . . has created a climate of fear which not only prevents the growth of a free and vigorous labor movement, but weakens and inhibits those unions which exist."

While the Labor Department cautiously attributes the terror to "unidentified assailants," few in Guatemala doubt that they are members of government security forces or of right-wing terror squads controlled by the government.

As for El Salvador, so much has been published about violations of human rights in that country that to add more horrible details may seem superfluous. Here, however, are incidents from 1982 alone.

In the beginning of the year, a number of prominent members of the union at the Salvadoran Institute of Social Security were abducted. In August, the offices of the National Transportation, Similar and Related Workers Union in San Salvador were raided and six workers there seized. Also in August, the entire board of directors of the National Association of Salvadoran Teachers was arrested.

In October, 15 leaders of unions and moderate leftist parties were kidnapped; most of them were picked up by plainclothed gunmen. U.S. Ambassador Deane R. Hinton expressed regret over the kidnappings, calling those seized "the few courageous ones that hung on"—i.e., stayed in the country. Hinton said then that he did not believe that the government was responsible. However, the Defense Ministry later announced that it had eight of the missing persons in custody.

We cannot, in good conscience, penalize American workers by extending tariff-free access to our markets to such regimes as those in El Salvador, Guatemala, and Haiti. Furthermore, the present Governments of Honduras and the Dominican Republic, because of their questionable labor practices, may not be worthy of such benefits included in the proposed legislation.

The Council believes the Committee should make it certain that such pariah regimes do not receive tariff-free access. Therefore, we strongly recommend that the language of section 102(c)(8) be made a mandatory provision of H.R. 2769, rather than a mere factor which "the President shall take into account," and that, consequently, the four previously mentioned countries be denied such benefits.

Background Memorandum: Labor Conditions in Selected Caribbean Basin Initiative Beneficiary Countries [1]

Labor conditions in the Dominican Republic

Throughout most of the history of the Dominican Republic, efforts by trade unions to organize and bargain collectively were ruthlessly repressed. Even under civilian President Joaquin Balaguer (1966–78), labor and student leaders were systematically murdered or "disappeared." Between 1966 and 1970 alone, it is estimated that 650 student and labor leaders were killed. But since the Dominican Revolutionary Party [PRD] came to power in the 1978 election, the state of civil liberties, including trade union rights, has greatly improved, and the use of physical intimidation against labor groups has, with a few exceptions, disappeared.

Despite impressive gains in trade union rights in the Dominican Republic, glaring problems remain. Since only about 12 percent of the economically active population belongs to unions, the labor movement remains very weak. Labor leaders are quick to give the PRD and former President Antonio Guzman (1978–82) great credit for opening the political process. But while a wide variety of ideas and political parties, from the left and right, are accepted, union members describe the PRD's labor policies with the saying: "Civil liberties stop at the factory door." Labor organizers say that workers are permitted to hold assemblies, to strike, and to make proposals and demands—but when it comes to asserting these rights, union members frequently are fired, and the government does not help them in their cases. While there are no legal restrictions on the freedom to strike, private companies have been known to fire striking workers, who are left with little recourse for their grievances.

According to a 1982 U.S. Department of Labor report: "Many active labor unions flourish, even though they operate under the handicap of a labor law which is largely unchanged since the days of Trujillo."

The most reprehensible labor practices in the Dominican Republic are directed at the thousands of legal and illegal Haitian workers in the country. For decades, the Dominican Government has imported 10,000 to 15,000 Haitians annually to cut sugar cane. Many of these Haitians remain behind illegally. Many others cross the lightly patrolled border to live and work illegally in the Dominican Republic.

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[1] Prepared by the research staff of the Council on Hemispheric Affairs.

The contracts between the Haitian and Dominican Governments have had no legal basis since a treaty between the two countries on this question expired in 1971; the arrangements for this import of labor are usually kept a closely guarded secret. Over the years, however, some terms of the agreement have come to light.

In 1980 the Dominican Government reportedly paid the Haitian Government $1.6 million to obtain the delivery of Haitians to the cane fields. On a more informal basis, labor recruiters are said to sell Haitians to Dominican farmers for $11 each. There is also an arrangement for the surreptitious delivery of Haitian field workers to the U.S.-owned Gulf + Western plantation. This system of worker acquisition has been denounced by the Anti-Slavery Society of London.

Every 15 days, one Dominican dollar is deducted from the pay of each Haitian cane-cutter and the money collected is delivered to the Haitian Embassy in Santo Domingo. According to the contract, the money is to be refunded to the workers on their return to Haiti. However, none of the Haitian cane-cutters interviewed by a Washington Post reporter recalled ever receiving the refund.

The Dominican sugar cane harvest could not be carried out without Haitian labor, since Haitians constitute an estimated 90 percent of the Dominican labor force. Despite their crucial role in the economy, they are severely underpaid, even by Dominican standards.

In 1979, the International Labor Organization [ILO] calculated that the typical Haitian cane-cutter earned about $2.50 a day, $1 less than the official Dominican minimum wage for agricultural workers. Illegals make as little as $1.75 a day, Dominican citizens of Haitian origin up to $3.26. During the peak of the harvest, field hands work 10 hours a day, 6½ days a week.

Although housing is to be provided by the Dominican government, workers are forced to live in squalid conditions. Cramped in tiny huts with dirt floors and no beds, chairs, electricity, or potable water, the workers often suffer from malaria and malnutrition. No health facilities are provided. Bread and sugarcane juice are frequently the entire diet. In plantation work camp, there was one latrine for 300 people and in other work camps there are no sanitary facilities at all.

The contract between the two governments reportedly calls for the provision of a metal frame and a mattress for every worker, but beds are a rare sight in the work camps. According to one report, the state-owned sugar plantation had sold elsewhere most of the mattresses it was supposed to deliver to the Haitian workers.

There is no reliable transportation for the Haitian workers back to Haiti at the end of the sugar harvest, despite the terms of the contract. There have been several reported instances of Haitians being herded into barbed-wire corrals without food or sanitary facilities for several weeks at a time as they await their return to Haiti. Press accounts have also described beatings and killings of migrants at the hands of Dominican soldiers.

Ramon Antonio Veras, a Dominican attorney who specializes in the issue of Haitian migrants, has declared: "In the entire continent, there are no human beings who receive more cruel treatment than the haitian braceros in the Dominican Republic, regardless of what the law says."

LABOR CONDITIONS IN EL SALVADOR

The plight of organized labor in El Salvador has steadily deteriorated since the October 1979 coup. As the Salvadoran Government's campaign against the guerilla insurrection has intensified over the past 3 years, so has official government repression of basic labor rights.

The vast substance of official antagonism toward organized labor in El Salvador has gone underreported in the U.S. press. According to the National Trade Union Federation of Salvadoran Workers [FENESTRAS], composed of 26 national unions organizing the key industries of the country and comparable to the AFL-CIO in the United States, various decrees issued by the Salvadoran Government have undermined workers' rights to organize. In addition to legitimizing torture as a means of obtaining confessions (Decree 507), the government has violated collective-bargaining agreements and frozen wages (Decree 544), suspended the right of public employees to organize (Decree 296), and dissolved unions which have sought to exercise the right to strike, including the electrical worker's union, STECEL (Decree 44). Decree 296 also forbids strikes or collective abandonment of posts by public employees. All public services in the country have been militarized.

The systematic repression of Salvadoran organized labor has resulted in over 1,600 workers murdered, 650 union leaders disappeared, and 700 workers jailed—including 65 women organizers at the Ilopango prison—over the last 2½ years for the crime of carrying out union activities. FENESTRAS has reported that between

1979 and 1981, 8,239 members of organized labor were murdered, abducted, tortured, disappeared, or wounded.

Salvadoran authorities use a wide variety of weapons in their battle against organized labor. The least violent method is to dissolve unions by decree, in direct violation of the Salvadoran political constitution. In addition, armed squads have ransacked or dynamited over 17 local and national union halls and headquarters—making it impossible for union leaders to conduct their business openly and forcing many of them, should they be willing to take the risk, to work clandestinely. In the capital of San Salvador, every union hall has been ransacked or destroyed by government-sanctioned armed squads.

The rights and benefits accorded Salvadoran workers are minimal. The 14 oligarchic families that exert widespread influence over the country's economy, as well as many of the 75 U.S. and Japanese firms doing business in El Salvador, pay their workers less than $80 per month. In addition, foreign-based firms operating in government-created "free trade zones" pay no taxes to the government for products manufactured in, and exported from the country.

The International Union of the United Automobile, Aerospace & Agricultural Implement Workers of America [UAW], the International Association of Machinists [IAM] and other U.S. labor organizations have voiced their concern over the persecution of the leadership of FENESTRAS and STECEL. On August 22, 1980, 11 leaders of the two unions were arrested and later tried by the Salvadoran Government under the military code for participating in a general strike of STECEL, one which resulted in the reinstallation of 160 workers fired from their jobs. The eleven union leaders remain in prison. In 1981, their files were listed as "disappeared" by the armed forces high command, rendering it impossible to initiate legal proceedings aimed toward securing their release. Lawyers who had originally been appointed to represent them later abandoned their cases in the face of death threats and attempted abductions.

The U.S. media awoke to Salvadoran labor violations in January 1981, when two U.S. officials of the American Institute for Free Labor Development [AIFLD] and a Salvadoran colleague were gunned down in a San Salvador restaurant. The three victims were assisting in the implementation of the U.S.-sponsored agrarian reform program. Their murderers have not been arrested; testimony from eyewitnesses implicates officers in the National Guard. The AIFLD's role in the land reform program stems from its longstanding association with the 10,000-member Salvadoran Communal Union, an organization of argicultural workers affiliated with the Inter-American Regional Organization of Workers [ORIT].

Representative Edward Feighan (D-Ohio) met a delegation of Salvadoran labor leaders while on a fact-finding tour of that country in January. Upon his return, the congressman commented that, "It was quite courageous of them to meet with us. One of their members a few days earlier had disappeared. Many of their colleagues have already been killed or incarcerated. It is very clear that union activity is prohibited; strikes and job actions are beyond consideration. That is 'subversive activity.'"

LABOR CONDITIONS IN GUATEMALA

Despite Gen. Efrain Rios Montt's promise in March 1982 to commit his government to the defense of workers' rights, the new president has done nothing to right the wrongs of his tainted predecessor, Gen. Romeo Lucas Garcia. All labor union activity in Guatemala has been outlawed by the new military regime.

Although Guatemalan labor unions and workers' associations have been firmly entrenched since the late 1940's, the successive military governments of Gens. Lucas Garcia and Rios Montt have abrogated workers' rights, first by intimidation and terror, and then by decree. Under the Lucas Garcia regime, in 1980 alone an estimated 460 trade and agricultural national and local leaders were killed or disappeared in Guatemala. A total of 50 labor leaders from the National Workers Central [CNT] were abducted by government security forces in June and August of that year. They have not been heard from since, and are presumed to be dead. During a protracted and bitter labor dispute at the U.S.-owned Coca-Cola bottling franchise in Guatemala in 1980, some 15 unionists were tortured, killed or disappeared in a union-busting campaign coordinated by the plant management and Guatemalan police.

In response to the mounting repression against Guatemalan unions, in 1980 Douglas Fraser, President of the United Auto Workers [UAW], denounced the deteriorating labor conditions in the country, pointing out that "labor leaders have been systematically eliminated or repeatedly harassed until they resign. With factory wages

averaging $3 a day, the country has had only two legal (i.e., government-approved) strikes in 30 years. To be a union leader or active member of a trade union in Guatemala means risking one's life."

While Gen. Rios Montt bemoans the plight of Guatemalan workers, he has yet to match his words with deeds, and is unlikely to do so while his government remains economically bound to the opponents of organized labor. Last year, Guatemalan business leaders contributed some $70 million to the government's "war against subversion." As much as $350 million has been pledged by the business community for 1983. As many leaders view labor union activities as contrary to their corporate interests, they would be likely to withdraw their necessary economic support of the Rios Montt government if the president were to lift restrictions on union activities or otherwise commit himself to workers' rights.

Thus far, however, Rios Montt has displayed no such inclination. Labor conditions and wages remain dismal. Large landowners continue to drive peasants off choice land, forcing them to work on large plantations where conditions are brutal. The established daily minimum wage for farmworkers of $3.50 is rarely paid. In the past year, Rios Montt's first year as president, the government's campaign against subversion moved from the cities to the countryside. In quashing the guerrilla opposition and aiding the landowners' cause, government security forces and paramilitary death squads killed an estimated 6,000 peasants, including many peasant union organizers and their supporters.

LABOR CONDITIONS IN HAITI

Labor conditions and the state of the labor movement in Haiti are among the worst in the Western Hemisphere, if not the world. Democratic labor unions in Haiti have been ruthlessly suppressed, and the labor movement eradicated or forced underground whenever it has tried to reappear. Any union leaders brave enough to show their faces are arrested, imprisoned, tortured and/or exiled. A July 1982 report from the U.S. Department of Labor concluded that "the organized labor movement in Haiti is almost nonexistent. All unions, except one, which is directly controlled by the government, are outlawed. Little in the way of . . . collective bargaining exists and strikes are extremely rare. Unions must obtain recognition from the Ministry of Labor and conform to the labor code, which provides for a direct government role in labor disputes. There is a long history of government repression of the labor movement in Haiti."

The last independent trade union to exist for any period of time in Haiti was the Union Nationale d'Ouvriers d'Haiti [UNOH]. The government of Francois "Papa Doc" Duvalier raided its headquarters and destroyed all the records of the union in January 1958. The General Secretary, Nathaniel Michel, was imprisoned. UNOH was then converted into an official government union called Force Ouvriere et Paysanne d'Haiti [FOPH].

The indepenent labor union movement attempted to re-assert itself in 1959 when the Federation Haitienne des Syndicats Chretiens [FHSC] was established. A few unions and rural cooperatives were established before the leaders were exiled to Venezuela. Other attempts to organize trade unions in the 1960's resulted in the arrest and lengthy imprisonment of the organizers.

The most recent major attempt to establish a trade union movement met with similar tactics wielded by "Papa Doc's" successor, Jean-Claude "Baby Doc" Duvalier. In the summer of 1979, an international delegation composed of trade union representatives from Venezuela, the Dominican Republic, and Canada visited Haiti to encourage the development of a labor movement. Through this encouragement, the Autonomous Confederation of Haitian Workers [CATH] was established under the leadership of Yves Richard. CATH began to organize in the many assembly industries, mostly U.S.-owned through Haitian partners, which had been established during the 1970s. In September 1980, workers called their first strike at four assembly plants. The strike was crushed and the union disbanded when 60 trade union leaders were detained and approximately 250 workers discharged (many of the leaders have not been seen again). According to the Haitian Refugee Center in Washington, D.C., Yves Richard is now in exile in New York City and at least one of the other leaders of CATH has been murdered.

The Haitian Ministry of Social Affairs accused the CATH organizers of "subversive activity" for their attempt to establish a free trade union movement.

In November 1979 the Independent Haitian Writers Association was formed, but is disbanded a year later under government repression. Pierre Clitandre, the president of the Association, has been exile in New York City since 1980.

In August 1980 two union leaders and eight workers who had been organizing a union at the Haitian-American Sugar Compnay [HASCO] were detained.

Any labor organizer in Haiti today must work underground and move around constantly to avoid being arrested by the Duvalier police. Amazingly, there are still a few operating, one of whom was interviewed by the New York Times in 1980. This organizer claimed to have 36,000 members in the trade union movement but said it would be impossible to call a demonstration, since "the police would just kill them."

Today, the leaders of four out of the five labor unions established in Haiti in the last two decades are in exile or underground. The only functioning union is the government-controlled FOPH. Only 1 percent of the Haitian labor force is organized.

This repression of the labor union movement has had a correspondingly depressing effect on wages in Haiti. Even in the apparel and electronics assembly industries, the most advanced, dynamic and profitable sector of the economy, the minimum daily wage is $2.64. This is the lowest by far of the Caribbean Basin countries; for comparison, the minimum daily wage in Barbados is $3.80, in El Salvador $4.40, and in the Dominican Republic $6.80.

U.S.-owned companies would not seem to need any additional incentive to be lured into Haiti's union-free labor environment. The U.S. Department of Commerce extols "the attractiveness of Haiti as a site for U.S. investment in labor-intensive assembly and transformation industries." Haiti has become a particular favorite of sporting goods manufacturers. Rawlings, McGregor, Wilson, Dudley Sports, Home of Champions, and Brunswick Royal all have operations in the country. As a result, Haiti is the world's largest exporter of baseballs, producing nearly all those used in the United States. The predominently female workers who stitch together the baseballs are paid an average of $2.70 a day for a workday that frequently extends from 5 a.m. to 7 p.m. This is a wage of about 20 cents an hour, or 7 to 9 cents a baseball. The baseballs are sold in the United States for around $4 apiece.

Besides the brutal eradication of trade unions in his own country, Duvalier and his government are also deeply involved in the export of Haitian workers to work in the sugar-cane fields in the Dominican Republic. The contracts that govern this bracero program and the treatment of the Haitian workers in the Dominican Republic have been denounced by several international human rights organizations as slavery.

There has been no legal basis for the shipment of Haitian workers since the last treaty expired in 1971. Since then, the trade has been governed by yearly contracts with highly secret provisions. However, various journalists and social scientists have been able to ferret out some aspects of the contract. One social scientist has said that "part of the annual contract contains an obscure clause insuring the Haitian Government a sum of money for the delivery of the annual crop of workers amounting to over a million dollars in 1978." The figure is now reportedly closer to between $1.6 million and $2 million annually. The Haitian Government has also instituted, with the complicity of the Dominican Government, a program of "forced savings," none of which are ever seen by Haitian sugar cane-cutters. The Dominican authorities subtract $1 every 15 days from each worker's pay and deliver the total amount to the Haitian embassy in Santo Domingo. Although this is purportedly to be delivered to the workers upon their return to Haiti, according to interviews conducted by the Washington Post, no Haitian worker has reported ever seeing any of this money.

LABOR CONDITIONS IN HONDURAS

The Honduran labor movement has the longest history of activism in defense of its rights, and of influence on government policy, in Central America. Although labor unions still remain influential and active in Honduras, their basic rights have been under increasing pressure from a succession of military rulers and, most recently, the nominally civilian government of Roberto Suazo Cordova, one democratically elected but largely dominated by the military.

The relatively long history of unionization in Honduras began with a massive strike in 1954 by banana workers against the TELA Railroad Company (United Fruit) and Standard Fruit. The labor movement won major concessions through the strike. In 1955, the Fundamental Charter of Labor Guarantees was enacted. The charter, revised in part by the labor code of 1970, covers issues concerning minimum wages, maximum hours, collective bargaining, and social security. Although the legislation is considered mildly progressive, it is generally ignored by the majority of workers and employers.

By 1976, 14.6 percent of the economically active population was unionized, the highest percentage in Central America (Honduras and Costa Rica combined have 60

percent of total union membership in Central America, although they have only 30 percent of the total labor force). Sixty percent of the unionized workers in Honduras work in the agricultural sector, primarily bananas.

The Honduran tradition of vocal and powerful union activity has come under severe stress over the past year. Massive layoffs in the public and private sectors, due in part to an austere economy program, have been exacerbated by an emerging pattern of government-sponsored persecution of labor leaders, suppression of labor demonstrations, and a general collapse of civic guarantees. New "progressive" labor legislation enacted in September 1982 has been rendered virtually meaningless by the near-collapse of the economy.

President Suazo Cordova has followed an economic program—recommended by big business interests in Honduras and by the International Monetary Fund—that has devasted the ranks of the employed labor movement. At least 15,000 public employees and 12,000 private sector employees lost their jobs in 1982. Forty percent of the factories in the country have closed their doors; and those that remain open are currently operating at only 50-percent capacity. Estimates of unemployment and underemployment ranged from 56 to 70 percent at the beginning of 1983.

The ability of organized labor to protest these economic policies and the resulting massive layoffs has been curtailed by disappearances and beatings of students, labor leaders and political activists. In February 1982, four clandestine cemeteries were found in Honduras, the first such discovery there.

The general pattern of intimidation of labor and political activists, so common in Guatemala and El Salvador, is a relatively new phenomenon in Honduras. Juan Almenarez, rector of the Honduran National University, has commented: "In our country, the application of the repressive model hass begun. This model has been used . . . since the early 1970's in Guatemala and El Salvador. This system has now commenced here with death threats, kidnappings, jailings and torture."

In October 1982, seven Honduran bishops, including Archbishop Santos of Tegucigalpa, denounced the new climate of offical violence in Honduras with a collective letter that said, "terrorism, disappearance, mysterious discoveries of bodies, assaults, robberies, abductions, and individual and collective insecurity appear to have increased during the past 2 years."

The intimidation of the Honduran labor movement has gained a legal footing through an antiterrorist law passed by the Honduran Congress on April 29, 1982. The law has already been used on several occasions to break up otherwise legal strikes and labor demonstrations. The law grants sweeping powers to detain and punish all forms of political opposition. These powers were used in breaking a nationwide teachers' strike in August. The strikers, supported by over 80 percent of Honduran teachers, sought higher wages (Honduran teachers earn an average of $125 a month). The Honduran Government maintained it could not afford any pay raises and, on August 25, army troops occupied the headquarters of the teachers' union, detaining several of its leaders and members. The Honduran Congress showed its contempt for the demands of the teachers' union by raising the salaries of cabinet ministers by $1,000 during the period of the strike.

During a series of demonstrations in support of pending labor legislation in October 1982, over 300 people were arrested, and at least one labor leader was beaten by police forces. Some of those initially detained have yet to be released. At one point in October the government released 11 labor leaders from jail only under the threat of a nationwide strike.

On December 13 the Supreme Court of Justice annulled the election of the president of the Honduran Institute of Professional Teaching. Three days before, agents of the Department of National Investigations (frequently implicated in disappearances) illegally arrested 32 members of the institute.

Less is known about the condition of unions in rural areas, but the National Peasants Union [PNC], affiliated with the centrist Christian Democrats, have said that the anti-terrorist decree has been widely used to arrest and hold many peasant leaders and organizers.

In January of this year, the Christian Democratic Party and the Alianza Liberal del Pueblo accused the government of setting up a secret committee designed to curb union activity. Spokesmen for the parties say the committee is composed of prominent businessmen and politicians, headed by Honduran strongman and Army Chief of Staff Gen. Gustavo Alvarez Martinez. A Christian Democratic Deputy told Latin American Weekly Report that, "The life of the popular movement is at stake. There is a plan to break it up, beginning with the National University and the teachers' union."

Despite these attempts at intimidation, the labor movement remains determined to protect its constitutional rights. In January 1983, a major strike of municipal

workers was called to protest the continuing wave of layoffs, and in February more than 15,000 employees of the Ministry of Health went on strike to demand respect for labor and a halt to the layoffs.

Before the recent global recession, many U.S. companies had already found a comfortable home in Honduras, without any of the benefits of the Caribbean Basin Initiative. Under its Industrial Incentive Law, Honduras grants tax exemptions and duty-free importation of materials and equipment to export industries, most of them U.S.-owned. As a result, the textile and assembly industry is booming in San Pedro Sula and the Cortes Free Zone. A dozen U.S. corporations use cheap Honduran labor, primarily women, to make bras, men's underwear, boots, baseballs, and other items for export to the U.S. market. They have found Honduras a profitable place to do business without any further incentives from the U.S. Government.

Largely owing to its staunch activism, the Honduran labor movement has earned hard-fought working benefits, despite official antagonism. Late last year, the Honduran Congress passed legislation mandating the payment of a seventh day's wage to all employees who normally work a 6-day week, plus a year-end bonus equal to one-month's pay. This type of bonus scheme is seen as ideal in Central America but has not been established. The legislation can be regarded as a forward step for Honduran labor, but bonuses are meaningless to the increasing number of Hondurans with no job at all.

STATEMENT OF THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES AND THE INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY

We are pleased and honored to be able to present to the Committee a perspective on the Caribbean Basin Initiative that has not generally been heard by policymakers in this country. Yet, it is a point of view shared by thousands of people in the Caribbean and Central America, including those working most closely with the poor and disadvantaged whom the Initiative is purportedly intended to ultimately benefit. They would like the committee to know that the Initiative has not been universally applauded in the region. Some of the best and most dedicated people in the area fear that the CBI will have a disastrously destructive effect upon many of their countries. They need only point to previous experiences with similar programs and the intial impact of the CBI in the region to make their point.

The Reagan administration has been criticized throughout the Caribbean and Central America for not extensively consulting representatives from the region, particularly those representing the interests of the working class and poor. The administration, in developing the CBI, was highly selective in its consultations, the result being an essentially unilateral proposal which has caused considerable resentment, particularly within the nongovernmental sector in the region. The enthusiastic response of their government leaders to an initiative originating outside the region in which they had little or no input has been explained by the fact that most of the region's governments are either unrepresentative of their populations or are under severe economic duress. And, while the private sector in the region was also consulted, such popular and representative bodies as trade unions, cooperatives, farmers' groups, and community organizations were excluded from talks on the CBI.

Accordingly, a 3-day Working Conference on Caribbean and Central American Development was convened in Kingston, Jamaica, December 14-16, 1982, to enable an articulation of views from segments of the population that ultimately would be most affected by the President's plan. It was conceived as a means of soliciting input from representatives of nongovernmental organizations in the region in order to develop practical alternatives to the Caribbean Basin Initiative and an appropriate American response to the region's problems. The conference was sponsored by the Development GAP, a Washington-based development policy organization, and was supported by a grant from the Presbyterian Hunger Program.

The conference was attended by 14 NGO representatives from Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, Mexico, Jamaica, Haiti, Dominican Republic, Dominica, Grenada, Trinidad, and Puerto Rico. These included representatives of farmers' organizations, small-business groups, universities, research institutions, church organizations, and development institutions. A number of other individuals from the region, including representatives from workers' unions and human rights groups, were invited but were unable to attend. Observers from four American development and church organizations attended in order to gain a perspective on the issue and to explain particular details of the CBI and its legislative status to the conference participants. The names of the participants and their respective organizational affiliations are attached.

What follows is a draft report of the conference proceedings. A final report, with a further elaboration of more concrete alternative proposals, will be published in May.

OVERVIEW

As part of its critique of the CBI, the working group generally agreed that the Plan is intended to benefit primarily U.S. interests and that its long-term impact on the countries in the region is likely to be negative. According to the conferees, the CBI was designed by and for American special interest groups at the expense of the vast majority of the region's populations. Its main impact would be to enhance American access to and control over local resources and to increase their economies' dependence on the United States while weakening the economic links that presently exist within the region. Regional mechanisms of cooperation, it was pointed out, are being sidestepped and undermined.

The intrinsic problem with the CBI, it was argued, is that it is a continuation—and an even more cynical manifestation—of longstanding American policy toward its neighbors in the Western Hemisphere. The Caribbean and Central America were specifically chosen at this time for special treatment due to their perceived strategic importance, but the United States, it was pointed out, always has considered the region as a resource base. Accordingly, it has encouraged and supported an excessively free-market model of development—most blatantly incorporated in the trickle-down, private-sector, survival-of-the-largest policies of the CBI. Hence, the Plan has been perceived as the economic component of a U.S. effort to maintain and enhance its domination of the region.

The proposal seeks a strengthening of economic ties which will assure access to raw materials, provide investment opportunities, and preserve traditional markets for U.S. goods. It was felt that, with foreign direct investment generally declining, American taxpayers are being asked to pay for financial incentives to encourage U.S.-based multinationals to seek investment outlets and production bases from which to export to the United States. Trade dependencies are also being deepened, in response to threats from trade competitors, and newly created, in an attempt to redirect trade away from ex-colonial powers in the region. In effect, the United States, it was felt, is trying to firmly establish a Third World development model, a model of dependency that led to disastrous results when implemented in the 1950s in Puerto Rico.

At the same time, the CBI was seen as contributing to an American design to discourage alternative models of development such as those pursued by Nicaragua and Grenada. The exclusively bilateral approach of the CBI, together with the exclusion of these two countries as beneficiaries, was cited as evidence of the geopolitical intent of the proposal. The conferees also suggested that, by forging stronger links to the region, the United States hoped to discourage movements toward political non-alignment. Finally, the Plan was viewed as a part of, rather than as an alternative to, the American dependence upon a military solution to the current regional crisis, as the United States picks up client states and expands its economic and military presence in the Basin.

DEVELOPMENT AND THE CBI

The general theme underlying much of the conference discussion was that effective development is both balanced and equitable. Developmental progress, it was argued, must be measured not only against economic indicators but also in terms of its social impact. Broad participation by all sectors of society in development planning, implementation and evaluation is necessary to ensure the evolution of a just and equitable society, Accordingly, representative and popular organizations must be recognized as not only legitimate but essential participants in development efforts. Their activities are of even greater importance in countries such as Guatemala and Haiti that are controlled by repressive governments that demonstrate little regard for the welfare of the poor majority.

Economic sovereignty, as contrasted with economic dependency, was identified as an essential goal of development. The conference laid out and analyzed four essential strategies for achieving economic self-reliance: import substitution, agricultural development, export production and infrastructural development. While the importance of agricultural development was particularly stressed, it was pointed out that basic, staple-crop production received no attention in the original CBI package. Worse, the projected increase in the production of beef, sugar, and related projects that would be stimulated by the dropping of U.S. import barriers alarmed conference participants. They argued that such an increase would displace small farmers

in the region, raise local prices of staple goods, and increase the need for food imports.

They thus enthusiastically endorsed a House amendment to the CBI, introduced by Representative Thomas Downey with the backing of the Washington-based Bread for the World, designed to protect small-farm agriculture and help countries to eventually feed themselves by safeguarding production for domestic consumption. The conferees' endorsement of the amendment—which specifically makes duty-free entry of the above products into the United States contingent upon the submission of an acceptable plan that ensures that present levels of domestic food production would not be adversely affected by changes in land use and land ownership—reflected their concern that the CBI trade and investment incentives would distort the use of land in the region, in part by encouraging and facilitating increased foreign ownership. It was noted that this amendment was consistent with the high priority already given in the Caribbean to food self-reliance, on a regional basis. It was also pointed out that the policy would be particularly important in Central America, where both further concentration of wealth and environmental destruction have resulted from increased beef production for export. Forestry, for one, was urged as a sounder export base.

As it now stands, even with the Downey amendment, the CBI does not provide the basis for domestic economic integration. The production it supports is not integrated into the general economy, and important socio-economic aspects of development are ignored. The upgrading of managerial and other critical skills, a general improvement in education, the expansion of regional markets, an increase in food self-sufficiency and land-use efficiency, the development of a diversified local manufacturing base, research to develop new products using local resources, the development of exports that better enhance local societies, the establishment of new structures and policies that build distribution into economic growth and give the poor better access to productive resources, and the involvement of popular organizations more directly in national planning and decisionmaking were all identified at the conference as critical needs in the region but received no attention in the CBI.

It was strongly argued that national and regional economies must be restructured so that local needs can be translated into effective demand and domestic production redirected to meet this demand. Given the history and structure of most of the societies in the Basin area, there were no reservations from a diverse group of people at the conference about placing the responsibility of establishing the framework and policies for economic restructuring with the public sector. Yet, the CBI seeks to diminish state intervention to regulate private-sector abuses or to provide some balance in the economy for the poor and working classes. Improvement in most of the critical areas cited at the conference would not be stimulated by the purely private-sector, free-market approach and policies of the CBI, but rather through a more effective balance among the official, private, and nongovernmental sectors in each country. In short, this means mixed economies with broader participation in important decisionmaking, protection from the misuse of power by the state, but also a role for government in regulating the private sector and ensuring an equitable development process. It was noted that a generation ago the Alliance for Progress, a program similar in many ways to this CBI proposal, had, for all its failings, some conditionality attached relating to social reform in order to help the majority of citizens in Latin America and diversify national economies.

PROBLEMS WITH THE CBI EXPORT MODEL

The CBI is intended to promote rapid industrialization through expanded export production. It was pointed out, however, that it overemphasizes export expansion as the basis for an industrial boom and national economic growth. While acknowledging the importance of exports for overall development, the conferees also argued the need for continued import substitution strategies and infrastructural development in order to develop indigenous industries and achieve long-term self-reliant development. Local agricultural produce and other available resources, particularly the surplus from principal export crops, can be processed and consumed locally or sold in foreign markets, in part through regional mechanisms. Programs of import substitution which encourage the growth of these and other indsutries can therefore also form the basis for an export drive; i.e., the CBI poses a false dichotomy by encouraging exports to the exclusion of domestic industrial and agricultural diversification and development.

By encouraging the type of exportation that it does, the CBI will also exacerbate the long-term economic problems of the region's countries. Specifically, it will encourage more inefficient use of land and greater food dependency, on the one hand,

and primarily foreign-controlled industrialization (including agroindustry) and greater dependency on high and inappropriate technology, on the other. Exclusive emphasis on export production also leaves a country exceedingly vulnerable to price fluctuations. It was felt that there was a need to move away from this type of export production and dependency; the Downey amendment was seen as a step in the right direction.

Repeated reference was made to similar American policy efforts in the past: the Alliance for Progress and Operation Bootstrap. Both contributed to rapid economic growth, the benefits of which reached a small middle class and helped to fuel rising political and economic expectations. In the case of Central America, these increased expectations, along with growing domestic income disparities and intransigent repressive governments, provided the formula for much of the current political instability and armed conflict. In the case of Puerto Rico, the program, though also designed with mechanisms for income distribution, has yielded high levels of unemployment, migration, food stamp dependency, and dependency on foreign investors and foreign markets. Yet the conferees found that the Reagan Administration chose to ignore these lessons and followed the essentially "trickle-down" development models previously utilized and found wanting. In the end, the CBI was designed with many of the elements of the Taiwan model, as well—an export model used in Haiti in the late 1960s that created only 60,000 urban-based jobs that have been shown to be highly vulnerable to American economic downturns. In short, the conference concluded that the CBI was certain to go the way of past failures.

Other weaknesses in the Plan's trade provisions were discussed at the conference. Some of the special needs of developing countries in the establishment of trade agreements, for example, were not recognized in the CBI. Access to market is one particularly problematical areas, as the CBI exempts from duty-free treatment the very products, such as textiles and rum, which would most benefit Caribbean and Central American economies. There is also an urgent need, unrecognized in the Plan, for price stabilization mechanism that will help to redress trade imbalances over both the short and long term.

The major problem with the trade provisions, however, is that it will generally by American and other foreign companies—given immediate and unrestricted access to the "basic commodity resources" of the countries signing agreements under the CBI—rather than local interests that will be in a position to exploit these opportunities and take the lion's share of the benefits. In fact this is seen as part of the basic design and intent of the plan. Those countries already substantially involved in exporting to the United States the cash commodities affected by the CBI should have the capacity to increase there sales in the short term. Many, if not most, however, will not be prepared to take immediate advantage of the opportunity presented by the marginal lowering of U.S. trade barriers. They will require five or six years to develop the infrastructure, contracts, know-how, and new products of significantly access U.S. markets. In fact, the conferees considered it surprising, or perhaps a reflection of how bad the economic and financial situation is in the region, that many countries are buying into the CBI without being close to prepared to exploit trade possibilities. The situation is doubly troublesome because MNC-dominated trade could well mean favorable trade balances for the United States rather than local economies, which will be increasingly dependent upon the importation of American technology, as well as on external prices for their exports. The term of profit repatriation under CBI agreements will also be a factor, as will be rate of capital flight from the region. The trade proposal curiously focusses only on the movement of commodities, ignoring the serious problems surrounding current capital movement.

FOREIGN INVESTMENT

As reflected at the conference, there are individuals and groups at all points along the political spectrum in the region who accept the need for some direct foreign investment to help with the development of resources in the respective countries. The conferees, while critical of the role that foreign investment has often played in the region, encouraged investment that meets certain conditions. These include the creation of long-term, stable employment, the development of local skills and managerial technological capacities, the generation of markets, and the rational, ecologically sound use of indigenous resources. National government should therefore be able to reserve and exercise the right to regulate the activities of foreign investors. They should determine which economic sectors should be under state control, which are open to foreign investment and under what conditions. Tax incentives should be structured according to the investment criteria established in each country.

It was also felt that the effectiveness of national policies regarding foreign investment would be increased by the establishment of a code of corporate conduct which would be recognized throughout the region. Intraregional competition may prevail without the observance of such regional standards. Such a code of conduct could also establish standards regarding compensation for damage inflicted by foreign investors, including, for example, environmental destruction.

Accordingly, the conference called upon the United States to support movement in this direction, and, in the meanwhile, help the countries of the Basin to: work out fair arrangements with investing companies on a selective basis; identify and control investment that creates local capacity and meets other national investment criteria; establish national policies and programs that give people a stake in their own societies (for example, equalizing credit access for small businesses, cooperatives, and small farmers competing with large investors in the purchase and formation of capital); and exercise the legitimate public role—exercised by even the most conservative governments in the region—of regulating private-sector investment for the purpose of ensuring balanced and equitable growth.

Unfortunately, the CBI was designed, it was charged, to have quite the opposite effect. The CBI trade and tax provisions encourage investment regardless of their contribution to the long-term development of the countries within the region. Assembly-type operations which take advantage of the large supply of cheap labor are likely to find the incentives most attractive. Promotion of this sort of investment may increase intra-regional competition and encourage government efforts to maintain a docile workforce. The Plan will clearly perpetuate multinational corporate investment, the predominance of large industry, and export to the United States rather than help move local economies into the type of production that would directly enhance local societies. In the process, conference participants warned, it would undermine policies of import substitution, as well as intra-regional trade.

Furthermore, direct investment will probably be concentrated in only the few countries that are relatively peaceful, have stable economic environments, are not in a poor debt situation (unless dollars are set aside specifically for repatriation purposes), and can supply cheap labor. The movement of capital from Puerto Rico to take advantage of low wage levels in Haiti was, in the view of the conferees, a demonstration of both the pattern of investment to be expected under the CBI and of the instability of employment created by foreign investment in the region. Not that the CBI would be a panacea for the region's unemployed in any event: it is calculated that it would have little net impact in this area, leaving one out of every four people still without a job.

Above all, however, the conferees, and particularly those familiar with the experience and impact of Operation Bootstrap, pointed warily at the economic strategy, encouraged by the Plan, which makes the expected flow of foreign investment in response to export incentives the key to economic revitalization. It was argued that countries following such a path will be either pressured or seduced into granting multinational companies—best placed to take advantage of the CBI trade incentives—the resource access and local investment policies they want on very accommodating terms. The result would be a further denationalization of decisionmaking regarding resource allocation, raising serious doubts about the ability of governments to protect their natural resources and environments and to direct new production into priority areas integrated into their respective national economies.

The pursuit of such a strategy spelled disaster in Puerto Rico, where foreign firms were offered a complete package of incentives, including cheap labor, up to 75 percent tax exemption, easy access to the U.S. market, and use of the island's best sources of water, as well as other key infrastructure. When the MNCs eventually pulled out for greener pastures—often declaring bankruptcy before tax liabilities became due—they left behind their legacy: sick workers suffering the efforts of unregulated chemical industries; polluted water and other ruined natural resources; greatly increased consumer dependencies on Western products; and massive numbers of unemployed-cum-welfare dependents. What it did not leave behind were basic skills, local management capabilities, technology or technological know-how, or market linkages.

ECONOMIC ASSISTANCE

The economic assistance component of the CBI—already approved by Congress and implemented by the Reagan administration—was also soundly criticized by the conference participants. Of overriding concern was the fact that aid funds were provided essentially for private-sector purchase of commodity imports. Rather than balance-of-payments assistance, the conferees called for aid routed as directly as possi-

ble to appropriate development programs and the activities of the poor themselves. This would require establishing a major flow of aid resources to indigenous private voluntary organizations and the participation of aid beneficiaries in development planning. Probable priority areas were identified as credit for small- and medium-sized farms; the development of rural industry; the development of local entrepreneurship, particularly in the smaller Caribbean islands; the development of alternative marketing structures; education and training; and disaster relief. To attend to these needs, it was suggested that a higher level of resources be channeled through existing regional development institutions—largely ignored in the CBI—and directed to the small islands of the eastern Caribbean.

Recent events on one of these islands, Dominica, also focussed the conference's attention on the potential for destructive intervention by the United States in the domestic affairs of the nations of the region. Participants pointed to American use of bilateral aid agreements to require the elimination of subsidies of all types, including those assisting very poor producers. Under the agreement signed with the Dominican Government, for example, control over the country's dominant banana industry was taken away from the producers and the public sector and turned over to weak private-sector management. Part of the arrangement was for an American multinational to supply non-subsidized production inputs, while output prices continued to be fixed by a British company—thus squeezing the Dominican small farmer even further. The local producers' union is currently fighting the agreement. The conferees urged U.S. policymakers to put a stop to agreements of this type before irreversible damage is done to efforts aimed at equitable development in the region.

LACK OF CONSULTATION

One of the principal reasons, identified at the conference, for the problems with the CBI aid, trade, and investment provisions was the lack of consultation with the people of the region. Very few people were in fact consulted, certainly not representatives of the poor, popular organizations, and supportive development and research organizations. In fact, policymakers in the United States and in other Western nations were criticized at the conference for seldom, if ever, visiting and consulting with the supposed intended beneficiaries and, as is often the case, the final victims of aid, trade, and investment programs and policies. It was pointed out that very little of most development aid ever gets down to these people, as it is wasted, misused, and manipulated by institutions representing vested interests. Furthermore, all these capital flows, though to varying degrees justified on the basis of helping the poor, can have very counterproductive effects upon this population. Economic displacement, land speculation, high staple food prices, land scarcity, the reinforcement of repressive and elite structures, and the destruction of the national environment are but a few of the possible consequences. Yet, the poor, or their representatives, are seldom consulted and even less often involved in the decisionmaking involved in framing such programs and policies.

To understand the reasons why conventional aid usually does not reach where it is supposedly intended and why trade and investment policies often have counterproductive effects upon the poor, American policymakers and program officers must speak to those who have least control over the system. It was agreed that until the former increased their understanding of the nature of poverty in the region the likelihood of the United States, even under a new Administration, providing the appropriate incentives and encouraging the adoption of the proper policies to support rather than hinder movement toward a fairer distribution of income and productive resources within each society in the region would remain slim. The conferees were not so much surprised by the cynical policies designed by the Reagan administration as they were by the support for the policies by apparently well-meaning individuals and interest groups in the United States. They felt that this reflected insufficient knowledge about the region, its history, its social and economic structures, and the situation of its poor. They therefore argued strongly for the inclusion of representatives of the social development sector and of the poor and working class in any future discussions on the development of the region.

CONDITIONALITY

The questions of conditionality, and the possible infringement on national sovereignty, were the subjects of much discussion at the conference. Both the CBI legislation and the bilateral aid agreements emanating from it set forth provisions requiring changes in domestic policies in return for economic benefits—specifically, for trade advantages and financial assistance. It was noted that these favor private in-

vestment, leaving minimal roles for public-sector regulation and popular organizations. They range from the elimination of subsidies to poor producers and the modification of export subsidies to required consultation with USAID on "aspects of macroeconomic policy that relate . . . to the objectives of the Caribbean Basin Initiative" (Honduras-USAID Loan Agreement). Title I of the CBI, in stating the conditions to be considered by the President in designating beneficiary countries, further heightened the suspicion at the conference that the administration was giving itself broad latitude to dictate changes in the region's economies for its own interests. Assurance of "equitable and reasonable" access to the markets and basic commodity resources of a country is one such criterion. Another recommended consideration is whether a country grants preferential treatment to other developed countries "which has, or is likely to have, a significant adverse effect on U.S. commerce . . ." Conference participants believed that such a consideration could undermine the agreements emanating from the Lome Conventions.

The conferees concluded that all these conditions should be eliminated from any Caribbean Basin legislation, pointing out that, instead of developing partnership relationships, the United States was unilaterally directing policy changes in the region. It was able to do so by being much the stronger negotiating party in each of the series of bilateral negotiations intentionally designed by this Administration to be able to obtain the terms and conditions is seeks. The United States, for example, would not be held to regional standards as to the degree to which its domestic policies "distort international trade," while the President is given the arbitrary power by the CBI to judge and disqualify countries on just such a standard. This is not only one of many examples of the dangerous level of discretion afforded the U.S. President, but, given the difficulty of a nation in the Basin to actually distort international trade by itself, it is a further demonstration of the potentially manipulative nature of the CBI.

In fact, many if not most of the countries linked to the CBI would be particularly vulnerable to this type of arbitrary power. Economies might well be planned and geared up on the basis of a long-term export strategy only to have years of preparation and investment wiped out by changes in certain tariff and quota provisions. The conference asked for long-term commitments from the United States regarding the entry of their products, as well as the right to consult with the Agriculture Department before it recommends changes in import policies.

Given the history and current situation in Haiti and much of Central America and the history of American intervention in the region, the conference was also forced to explore the deeper nature and meaning of national sovereignty. It was agreed that national sovereignty had limited meaning to the extent a country's government did not represent the will of its people and less so to the degree that that government was placed in power and sustained by external forces. Accordingly, the conferees called upon the United States to respect the wishes of the majorities in their countries as reflected in the opinions of those representing various social, economic, and political sectors. Conditions set down would therefore have to be worked out with the poor and working class and not only government leaders and the privileged classes.

THE STRENGTHENING OF REGIONALISM

Although regional integration and unity are developmental cornerstones, both politically and economically, particularly in the Caribbean, no attempt is made in the CBI to strengthen regional mechanisms. There is no recognition, for example, of Caribbean regional food production plans being developed in the late 1970s, nor of the need to build a basic regional capacity in all areas. Furthermore, in dealing with each country bilaterally the Reagan Administration did not concern itself with how American policy could encourage greater regional trade and a more complete and permanent integration of regional production. This neglect by the administration could be interpreted as a deliberate effort to undermine already struggling attempts to build regional unity. In analyzing the CBI trade provisions, the conferees expressed their fear that these would, in fact, weaken efforts at regional cooperation significantly.

Hence, it was strongly urged that a multilateral mechanism be established in the region with broad representation. This would have various purposes. First, it might serve to counterbalance the fallout from the CBI on regional institutions already in place, regional trade and the broadening of regional markets, multi-nation negotiating power, and the search for regional rather than bilaterial solutions to national problems. Second, it could monitor and eventually evaluate social and economic progress under a CBI, preparing periodic reports on implementation and impact and

drawing on the views and experiences of cooperatives, unions and other institutions representing the poor and working classes; this would allow for periodic revisions of plans, programs, and policies. And third, it would be designed to provide greater balance among the negotiating parties, providing, for example, a means by which unfair provisions of bilateral treaties could be challenged and a common code of conduct regarding foreign investment could be established, so that the countries of the region could cooperate rather than compete in their search for American markets and investment. Other functions might include advising on the allocation of aid funds and improving the flow of information and overall communications throughout the region. It was also suggested that the commission might advise on the best means by which non-indigenous private voluntary organizations can support the work of local non-governmental organizations.

Although no specific institutional mechanisms were recommended for such a role by the conferees, it was strongly suggested that existing institutions, like the Central American and Caribbean Common Markets or the Inter-American Economic and Social Council of the OAS, be directly involved. The conference called for a stipulation in any new legislation that would require that the U.S. President start to move away from strictly bilateral relations under the CBI and toward the establishment of a structured multilateral relationship within a short, specified period of time. The General Secretaries of both Common Markets could be asked to recommend a regional structure, calling upon key Ministers and other representatives from the region's countries for their input. In the opinion of the conferees, an international commission may, in fact, be best placed under the joint operation of the two Common Markets themselves, as they are known to have good information on the two subregions respectively, strong technical and social staffs, a history of dealing with international economic issues, and most of the countries in the Basin as members; nonmembers, like the Dominican Republic and Haiti, would have to be brought in.

The commission should have broad representation on the donor side and particularly from within the Basin states, as one of the key reasons identified for the failure of past policies to have a positive impact upon the poor was the lack of decision-making involvement on the part of their representatives. The creation of a multilateral commission would facilitate a more mutual, as opposed to unilaterial, process for genuine economic cooperation for development, and this would provide the framework for a long-term commitment. Hence, the conference emphasized the need to move the United States toward a convention form of negotiations, such as the European Economic Community [EEC] established with African, Caribbean, and Pacific [ACP] nations in Lome in 1975. From this would emerge a multilateral partnership that strengthens rather than undermines existing regional institutions. It was also hoped that, in the spirit of partnership, the United States would recognize the need to help the Basin's countries to diversify their economic ties both within and outside the region so as not to become overly dependent upon and vulnerable to the American economy and policies.

MILITARISM AND THE CBI

A major issue at the conference was the implications of the CBI for the increased militarization of the region. While there is no money in the CBI specifically for military purposes, four concerns were voiced by the conferees. First, El Salvador, given its precarious economic and financial situation caused by the war, would still receive a disproportionate percentage of the CBI economic assistance funds. Second, new American investment in Caribbean nations which heretofore had not hosted such interests could provide a pretense for American military intervention in the area in certain cases. Third, rather than reducing tensions in the region and leading to the eventual end of hostilities, the CBI would probably increase tensions and the degree of militarization by further polarizing the haves and have-nots within countries and by trying to divide states along ideological lines through its policy of exclusion and isolation of certain nations. Fourth, and most important, the CBI is seen as the economic underpinning of an American political-military answer to the perceived threat in Central America and to the general regional crisis. It was felt that, as long as the United States utilizes such endeavors as a CBI for strategic purposes and to perpetuate its regional economic domination, peace in the region will be extremely difficult to obtain. And without peace and political stability, effective development will be equally difficult to achieve.

On the subject of exclusion of specified "communist" countries under the CBI, the conference firmly held that this violated a basic principle of regional cooperation. It was argued that there existed no good reason why Nicaragua, Grenada, or even

Cuba, for that matter, should be excluded from participation in a regional scheme when the United States trades with communist and socialist countries in other parts of the world. It was apparent to the conferees that the U.S. was trying to isolate countries, both economically and because they pose a different model for development in the region. Unless the United States were at war with a particular country, the conferees found such a policy of isolation from the other states in the region to be unacceptable. They objected to the arbitrary use of political criteria for eligibility and recommended that eligibility be based solely on a government's demonstrated commitment to the economic and social welfare of all its citizens.

SUMMARY AND RECOMMENDATIONS

While the conferees did not attempt to come up with concrete proposals as an alternative to the CBI policies, their recommendations can be summarized from the conference proceedings. These will be further developed in the final conference report. The recommendations are as follows:

1. Make economic assistance more developmental in nature and channel it as directly as possible to the poor, primarily through institutions that represent and work with them. Cut off all aid to repressive governments. Condition limited balance-of-payments assistance on the equitable use of the local currency counterpart provided by government. Untie aid and encourage the diversification of economic links by giving countries the option to purchase goods and services from non-American sources when more appropriate.

2. Support for a role for the public sector in regulating and controlling the abuses of the private sector and in providing balance in the society to help the poor and working classes. The elimination of all conditions in bilateral agreements limiting the role of government in helping the poor. This implies support for the maintenance of subsidies where critical for the poor, particularly in the areas of food and agriculture. Public-sector responsibility, as well, in providing incentives to help diversify local economies, in creating necessary infrastructure, and in working with the private sector to upgrade local technical and managerial skills and to develop new products and exports which enhance local societies.

3. Support for policies and programs of import substitution that help integrate domestic economic activity. Encouragement of indigenous processing of local resources and the development of new products for local consumption and as a basis for an export drive.

4. The stabilization of export prices of key commodities of countries that have programs in place to increase food self-reliance and ensure an equitable distribution of land domestically. Operationalizing the Downey amendment requiring national Staple Food Protection Plans as a condition for receiving duty-free treatment of exports of sugar, beef and related products.

5. Equalization of the rights of all parties under CBI provisions. The elimination of the arbitrary power of the United States to unilaterally, and on short notice, strike goods off the duty-free list without consultation with interested parties in the region; the right of countries to prior consultation with the Department of Agriculture. The recognition of the equal right of each of the region's countries to terminate its adherence to particular provisions of a bilateral agreement if it determines that they are having an adverse effect on its economy or a particularly vulnerable population group.

6. Greater oversight control by the U.S. Congress over the President in the implementation of any Caribbean Basin plan.

7. Support for regional institutions and economic integration. Strengthening rather than undermining regional common markets and other mechanisms. The encouragement of regional trade, the integration of regional production, and the development of regional food plans. The building of regional capacity in all areas.

8. Shifting of the CBI to a multilateral basis. The establishment of a multilateral commission, perhaps under the joint operation of the region's two common markets or under the OAS, and movement toward a convention and partnership form of negotiations and followup in the mode of the EEC–ACP relationship under the Lome Conventions. The requirement that the U.S. President negotiate a multilateral treaty within 2 years, and that it be negotiated in convention form within a regional mechanism with broad representation from within each country and from both inside and outside the region. The use of such a mechanism to also: strengthen other regional institutions and integration; explore regional rather than bilateral solutions to problems; monitor and evaluate social and economic progress and impact under a CBI; draw on the views and experiences of the poor, their representatives, and their institutions; provide greater balance among negotiating par-

ties; provide means to challenge provisions of bilateral treaties and to establish a common code of conduct vis-a-vis multinational investors; advise on the allocation of aid funds; and improve the flow of information in the region.

9. Conditioning of aid, as well as trade and investment incentives, on, and only on, a government's demonstrated concern for the plight and development of its poorest citizens. Inclusion of representatives from a broad range of sectors, including the poor, in working out bilateral agreements and support for their inclusion in national planning and other decisionmaking.

10. Support for more appropriate foreign investment in the region and for fair arrangements with investing companies. Balancing of national negotiating power with that of multinational companies. Support for the establishment of a regional code of conduct and for an increase in national monitoring and policing power. An increase in the flow of information within the region that enhances knowledge about the organization and operations of particular industries an helps countries to identify and control relevant, constructive types of investments. Support for representative union development and ability to negotiate effectively. Significant tax exemptions only for foreign firms constructively involved in or contributing to important socio-economic activities.

11. Lessen the financial burden on the American taxpayer by eliminating or reducing most tax exemptions extended to large American and multinational firms. Use of increased revenues to finance American job retraining and in other ways assist the American worker in accordance with the principle of compensation established elsewhere in the CBI.

12. Assistance in restricting capital flight from the region in order to deal effectively with balance-of-payments problems.

13. Elimination of military aspects of the CBI by reducing aid to El Salvador and by reducing parallel military aid throughout the region. Elimination of all strategic country exclusions.

WORKING CONFERENCE ON THE CARIBBEAN AND CENTRAL AMERICAN DEVELOPMENT—DECEMBER 1982

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EMBAJADA DE LA REPUBLICA DOMINICANA,
Washington, D.C., June 14, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Embassy of the Dominican Republic has the pleasure of transmitting herewith the Statement of the International Sugar Policy Coordinating Commission of the Dominican Republic in support of H.R. 2769 in connection with the hearing before your Committee on that bill. A supporting statement was also

submitted for the hearing record on the Caribbean Basin Economic Recovery Act in the 97th Congress.

For the Dominican Republic the most important feature of the bill relates to sugar which is our principal export commodity. Whereas U.S. imports of sugar produced by every other country in the Caribbean Basin is now accorded duty-free treatment under the Generalized System of Preferences, the U.S. duty on sugar imports from the Dominican Republic remains at 2.81 cents per pound. Enactment of H.R. 2769 would eliminate this disparity and its adverse economic effects.

The Government of the Dominican Republic sees this legislation as an important step in strengthening relationships between the United States and the developing countries of the Caribbean Basin. For that reason, we favor enactment of H.R. 2769, with particular emphasis on the sugar provisions.

Yours very truly,

CARLOS DESPRADEL, *Ambassador.*

Enclosure.

STATEMENT OF THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC [1]

The International Sugar Policy Coordinating Commission of the Dominican Republic supports H.R. 2769, the Caribbean Basin Economic Recovery Act. In the Dominican Republic this legislative proposal is seen as a landmark in the evolution of the relations that should exist between industrialized and developing neighbors.

The Dominican Republic and the United States share an interest in the political stability of the Caribbean Basin. The preservation of the democratic institutions of the region from destabilizing outside influences depends to a very great extent on maintaining an adequate rate of economic growth. After a decade of fair success in this respect, our country is now coping valiantly with the staggering economic problems inflicted by lower prices for our exports, including sugar, and by higher prices for essential imported products. Because sugar is the keystone of the Dominican economy, the provisions in the bill that would have the most immediate and meaningful impact are those relating to sugar.

The Dominican Republic is not the only Caribbean Basin nation to which the U.S. sugar duty (2.81 cents per pound) applies. As of March 31, 1983, sugar imported from every other country in the Caribbean Basin receives duty-free treatment under the Generalized System of Preferences [GSP]. Moreover, most of the sugar producing countries outside the Caribbean Basin that export to the U.S. market have also been accorded GSP treatment for their sugar. This includes the Philippines, Colombia, and Argentina.

This disparity in treatment exacts a heavy toll on the foreign exchange earnings of the Dominican Republic. In addition, this tariff disparity would limit the utility of the refined sugar reexport program announced by the U.S. Department of Agriculture in April, insofar as Dominican sugar is concerned. The reason is that the U.S. drawback rules permit U.S. refiners (importers) to receive a refund for duties paid with respect to previously imported sugar. Thus, refiners will have a strong incentive to purchase duty-free [GSP] sugar on the world market, to the exclusion of Dominican sugar or other dutiable sugar, in order to maximize their drawback benefits under the reexport program.

The sugar provisions in H.R. 2769 would extend equal tariff treatment to Dominican sugar entering the U.S. market for consumption. It should be noted that Dominican sugar would be subject to the absolute quota provided in the bill or a smaller quota imposed by the President under Headnote 2, Part 10A, Schedule 1 of the Tariff Schedules, or under any other provision of law. We have been advised by the U.S. Government that, if H.R. 2769 is enacted, Dominican sugar imported for refining and reexportation under the Department of Agriculture's program would be duty-free up to the quota specified in the bill.

In order to appreciate our keen interest in this bill it is necessary to understand the central role of sugar in our economy.

The Dominican Republic is a small tropical nation, about the size of Vermont and New Hampshire combined. It has a population of 5½ million and a GNP of about $5.2 billion. Contrary to popular impression, climate, rather than land, is our primary agricultural resource. Our fundamental problem is that of using generally

[1] The International Sugar Policy Coordinating Commission is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

poor soils in ways that productively employ our population and generate badly needed foreign exchange.

Sugar cane is well suited for this purpose. It is cultivated mostly in the Southeastern coastal plain, in poor soils, which are not irrigated. The only feasible alternative use for this land is as pasture for cattle grazing. Even at currently depressed sugar prices, sugar cane produces ten times the income and employment that could be achieved from the use of these lands in cattle production.

The sugar industry is the nation's largest employer. One out of every ten Dominicans derives his daily livelihood from the sugar industry, which includes more than 8,000 independent cane farmers.

Sugar industry exports provide upwards of 35 percent of the nation's foreign exchange receipts, which are solely needed to pay for the many imported products we require and which we cannot viably produce ourselves. These include manufactured items largely imported from the United States, and virtually 100 percent of our energy requirements.

It is the policy of the Dominican government to encourage diversification in our external trade sector. Although there has been some progress in that respect in recent years, our options in this matter are severely limited at our present stage of development and will continue to be so for many years. Clearly, then, the failure of the Dominican sugar industry during this period would not only greatly impoverish the country, but would also thwart any prospects for further diversification. As has been already pointed out, any substitute activity in the use of the resources presently employed by the sugar industry would necessarily entail a loss of income and employment. Furthermore, the country would lose the major source of foreign exchange needed to finance the capital goods of new industries.

Since early 1981, prices in the free sugar market have fallen progressively under the pressure of the enormous volume of subsidized surpluses "dumped" on the world market by the EEC. In order to insulate the U.S. sugar producers from the effects of this practice, the U.S. Government has taken increasingly stringent measures to restrict sugar imports. In December 1981, when free market prices were about 13.5 cents per pound, the President increased the duty from 0.62 cents to its maximum rate of 2.81 cents per pound and established an import fee, originally set at 2.14 cents per pound. Subsequently, the fee was increased to 4.07 cents but even at that level it was ineffective in maintaining U.S. sugar prices at the domestic price objective. Therefore, on May 5 of last year, the President adopted an allocated import quota system and the fee has since been lowered to zero. Under the quota, sugar imports from the Dominican Republic for fiscal year 1983 are limited to about 447,000 metric tons, which is 283,000 metric tons below our traditional level of exports to the United States.

These restrictives measures have contributed to the decline of free market prices which are presently around 11 cents per pound. Between 1981 and 1982 our total export earnings fell by 35 percent, while our export earnings from sugar dropped by 48 percent.

The situation we are facing is, therefore, an extremely serious one, since the large balance of our exportable sugar production, after filling the U.S. quota, must be placed in the free market at those extremely depressed prices.

Enactment of the proposed Caribbean Basin Economic Recovery Act would remove the tariff burden on an industry that is vital to the stability of the Dominican Republic and to its future development prospects. We are encouraged by the fact that the measure is being seriously considered by the United States. Although we recognize that the current allocation of the sugar quota reduces the intended benefit of the duty exemption for Caribbean Basin countries, we support H.R. 2769 and hope for its early enactment.

STATEMENT OF PHILIP C. CRUVER, PRESIDENT, DYNERGY SYSTEMS CORP., LOS BANOS, CALIF.

I would like to submit testimony in support of Mr. Heftel's proposed amendment, H.R. 3168, which "provides that the energy investment tax credit shall be allowed for certain United States-produced energy property used predominantly in any beneficiary developing country."

I am Philip Cruver, president of Dynergy Systems Corp., Los Banos, Calif., which manufactures wind turbines capable of generating substantial amounts of electricity into a utility grid in what is called the "windfarm" concept. Dynergy Systems' subsidiary, Transworld Wind Corp., develops windfarms both in the United States and overseas. Windfarm development includes contracting with the utility for the pur-

chase of power, acquiring land in windy areas, and securing governmental authority and permits.

In 1983, Transworld Wind Corp. intends to install the first phase of an 80-megawatt, 1,000 wind turbine generator windfarm representing an investment of over $100 million, which will be funded from private sector capital as a direct result of attractive Federal and State tax benefits. There are many other companies developing wind energy and other renewable energy projects in the United States that in most cases would never be undertaken without this favorable tax legislation. The wind energy industry had over 1,000 wind machines installed in California during 1982 and the State is projecting 10 percent of its energy needs to be met by wind systems by the year 2000.

Transworld Wind Corp. would like to see this tremendous success replicated in developing countries and particularly in the Caribbean Basin countries. H.R. 3168 would provide a significant incentive for private-sector investor interest to participate in the necessary capital formation. If this legislation is adopted, renewable energy project developers in the United States will be encouraged to expand their markets to these developing countries to help these countries meet their energy needs.

Among the plethora of problems the Caribbean Basin countries are experiencing, the cost and availability of energy is the most pervasive. The series of oil price increases during the past decade has had a catastrophic effect on the economic, political and social sectors. The consequences of dependence on oil affects not only supply, but also financial markets, international security arrangements, foreign trade relationships, and economic growth.

Transworld Wind Corp. has spent over 2 years analyzing the potential for wind systems in the Caribbean. The energy problem has been at a critical stage for several years, and cost-effective energy technologies must be transferred to ease the immediate energy constraints to help these countries make the difficult transition to energy sources that will sustain their economies over the long term. Lower energy costs will promote tourism—the major source of income—and assist in expansion of the infrastructure to promote industrial growth and reduce the high unemployment rates.

Problems with the balance of payments attributed to the importation of oil will be mitigated with the development of energy systems utilizing renewable resources. This is particularly important to most of the countries in this region since they import over 90 percent of their energy needs in the form of oil.

The country of Jamaica is the quintessential example of the Caribbean countries' dependence on oil and the inimical effect this has on the island's economy.

The World Bank states that "some 91 percent of total energy needs and 98 percent of commercial energy needs are satisfied through imported oil and oil products . . . In 1979, Jamaica imported 16.1 million barrels of oil at a cost of U.S. $335 million equivalent to 25 percent of imports of goods and nonfactory services . . . in 1980 they totaled 15.6 million barrels, with a foreign exchange cost of U.S. $470 million, or 39 percent of merchandise imports and 16 percent of Gross Domestic Product. See table 1 for a comparison of 12 other Caribbean countries' petroleum imports to merchandise imports.

Transworld Wind Corp. has made a realistic 5-year estimate of the total sales of electric wind turbine generator systems in the grid connected, windpark concept for Jamaica and the Caribbean Basin.

The estimates are based on the following factors: (1) electric power generation by central utility systems (and private systems in Jamaica) in the Caribbean Basin (31 nations in addition to Jamaica); (2) electric power generation growth for 5 years—from 1983–1987; (3) the annual energy production of a 40 kw wind turbine; (4) the total available land area; (5) the limitation of the wind energy contribution in relation to utility system capacities (not to exceed 25 percent penetration); and (6) the present cost of energy and its probable rate of escalation.

The combined annual power output of the 2000 wind systems would only be about 13 percent of the 1980 Jamaica Public Service Company's [JPS] generation and only 8 percent of the total public and private power production. The wind projected contribution would only be 8 percent for public and 5 percent for private systems and assumes a 4.5 percent annual growth rate as anticipated in the Jamaica National Energy Plan. Thus, we believe the 2000 wind turbines can be integrated into the JPS system alone. This figure excludes private powerplants, largely those of the bauxite/aluminum industry.

The 2000 unit estimate is 9 percent of the total Caribbean Basin market (Caribbean and Central America, see table 2). When the wind equipment is fully deployed, about 1,000 acres of the 2.7 million acres of Jamaica land area (.038 percent) would

be required (one-half acre per machine). The final sites selected could be in the more rugged plateau-mountain regions not under cultivation or crop use. Wind generators do not affect use of the land for livestock, pasture or many other agricultural purposes.

The Solar Energy Research Institute [SERI] estimated that Jamaica has 679,000 acres in Wind Class 3 (13.2 mph at 65 feet). Thus, the installed machines would occupy only a small portion of this very favorable wind resource area.

Table 3 reflects the potential for wind systems for the Caribbean and Central America region. Additional solar technologies could combine with wind to make a greater contribution towards energy independence in this region.

The foreign exchange savings from solar and wind technologies deployed as a result of this legislation must be viewed in the context of a 25- to 30-year period into the future. The fuel cost is zero; it cannot increase in the future and it requires no transportation. Table 4 illustrates the energy replacement medium size wind turbines are capable of over a 25-year life.

Thus, the marginal cost of generating electricity (which in some countries is two to three times higher than the United States), the availability of long-term debt, and strong indigenous solar and wind resources will make the Caribbean very attractive for investment in renewable energy equipment. However, an adequate incentive is still needed to attract the private sector to provide the required equity portion of the financing for such projects. Based upon our studies, we believe that extending the Business Energy tax credits to the Caribbean nations will provide developers with that incentive and help them attract the necessary capital to finance solar and wind technologies in that region of the world.

Mr. Heftel's proposed legislation will not only encourage investments in the Caribbean region but will also have a positive effect on the United States economy. To be eligible for the energy tax credits, the bill states that the property must be predominately manufactured in the United States. Manufacturers and trade unions should strongly support the potential benefits afforded them by this section of the bill. H.R. 3168 will not interfere or reduce renewable energy investments in the United States but, on the contrary, should bolster and proliferate the solar and wind industries by increased export sales thereby reducing the unit cost by mass production.

A recent market survey report by Frost & Sullivan says renewable energy systems will outpace long-dominant diesel power in what is projected to be a rapidly growing world market for remote power systems during the 1980's. The firm therefore sees diesel equipment as moving from a primary energy source to more of a backup role, with the new hybrid systems dominating new installations in the market. The report projects that world market for remote power systems will grow from about 5,000 MW in 1980 to about 9,600 MW in 1990.

H.R. 3168 will help U.S. manufacturers to effectively compete against foreign manufacturers for this huge potential market. Subsidies for foreign manufacturers of renewable products by their governments are placing them in the position to dominate not only the remote power systems market but all wind and solar applications. The export potential for wind systems is shown in table 5.

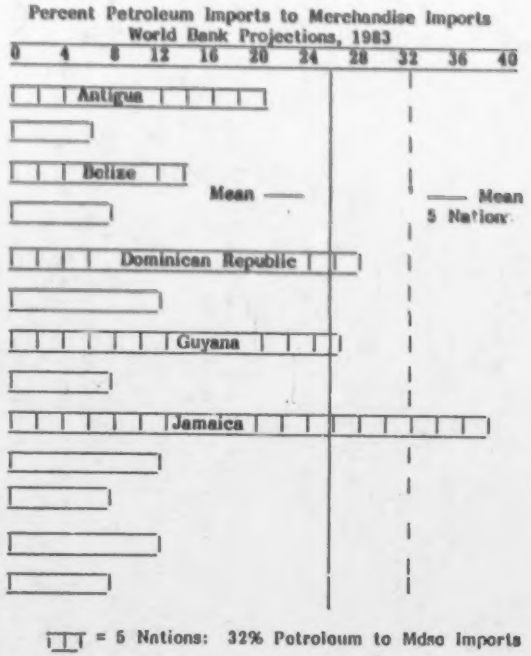
A study, dated May 1983, by Booz Allen & Hamilton, Inc. entitled "The Impact of Federal Energy Tax Credits on Solar/Wind Technologies" found that "Treasury gains will largely offset the costs of the tax credit, resulting in low net costs to the Government while reducing the national oil import bill and creating employment and export opportunities." This is an important study in that Treasury revenue loss is a very sensitive issue today. In addition to creating employment and export opportunities, H.R. 3168 should generate revenue to the Treasury from Federal income taxes stemming from increased production by solar and wind manufacturers.

In conclusion, H.R. 3168 is sound legislation that will make a meaningful contribution toward alleviating the emergency energy situation in the Caribbean Basin countries while providing a strong stimulus to the solar and wind industries here in the United States.

Table 1

Population, Petroleum Imports and Merchandise Imports
Selected Caribbean Countries, 1983
(13 of 26 Caribbean Nations)

	Caribbean Nation	1979(P) Population	Est. 1983 Petrol Imports	Est. 1983 Mdse Imports
1.	Antigua	74	25.0	126.2
2.	Barbados	253	43.9	599.2
3.	Belize	131	26.0	192.5
4.	Dominica	79	3.0	40.2
5.	Dominican Republic	5,286	436.6	1,543.0
6.	Granada	108	7.3	68.4
7.	Guyana	843	156.0	556.0
8.	Haiti	4,963	49.0	575.2
9.	Jamaica	2,184	553.2	1,323.0
10.	Montserrat	12	1.6	13.2
11.	St. Kitts	50	3.9	39.4
12.	St. Lucia	122	11.3	103.2
13.	St. Vincent	106	5.0	54.0
	Total	14,211	1,323.8	5,231.5



Note: Population Data (000); Petroleum and Merchandise Imports, current US$ Millions.

Source: Caribbean Energy Survey, Report No. 2511-CRB, The World Bank, May 7, 1979.

TABLE 2

CARIBBEAN BASIN
WTG MARKET BY POWER GENERATION CATEGORY
(1983 - 1987)

	WTG Group No. 1	Power Generation Class (GWH)	Number of Countries	No. of WTG** (5 Yrs) 1983-1987	(8 Yrs) 1988-1990
Central Utilities (Public & Private)	1	>1,000	5	18,366	29,050
	2	200-1,000	8	1,997	3,150
	3	< 200	15	437	700
	1-3	2-13,059	32	20,800/	32,900
Off Central Grid	4	Data, N/A	-	1,200	2,100
Central & Off Grid	1-4			22,000	35,000

WTG Market Identification by Country and Electric Power Class

Greater Than 1,000 GWH

*1.	Puerto Rico	2,566
2.	Dominican Republic	2,500
3.	Costa Rica	2,400
4.	Trinidad Tobago	-
5.	Panama	2,300
6.	El Salvador	2,300
7.	Guatamala	2,200
8.	Nicaragua	2,100
9.	Jamaica	2,000
		18,366

200-1,000 GWH

10.	Honduras	543
*11.	US Virgin Islands	301
12.	Bahamas	253
13.	Barbados	226
†14.	Guadelupe	182
†15.	Martinique	178
16.	Guyana	166
17.	Haiti	148
		1,997

Less Than 200 GWH

18.	Dutch Antilles	128
19.	Surinam	81
20.	St. Lucia	44
21.	Belize	38
22.	Antigua	35
23.	Grenada	19
24.	St. Kitts	19
25.	St. Vincent	17
26.	British Virgin Islands	14
†27.	French Guinea	14
28.	Monserrat	8
29.	Turks & Caicos	8
30.	Cayman Islands	6
31.	Dominica	5
32.	Anguilla	1
		437

** All WTG deployment estimates are based upon each country's utility generating capacity, available land area and wind resources.

* Tax Credits effective now with ACRS

† Excluded from CBI tax incentives.

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TABLE 3

CARIBBEAN AND CENTRAL AMERICA POWER GENERATION
40 KW WIND SYSTEM NUMBERS
1-25 PERCENT PENETRATION LEVELS

Total Electrical Power Generation*

%	1980 32,000 (GWH/Yr)	1985 44,800 (GWH/Yr)	1990 57,600 (GWH/Yr)
1	320	448	576
5	1,600	2,240	2,880
10	3,200	4,480	5,760
15	4,800	6,720	8,640
20	6,400	8,960	11,520
25	8,000	11,200	14,400

Number 40 KW WECS**

%	1980 32,000 (GWH/Yr)	1985 44,800 (GWH/Yr)	1990 57,600 (GWH/Yr)
1	3,765	5,271	6,776
5	18,825	26,355	33,880
10	37,650	52,710	67,760
15	56,475	79,065	101,640
20	75,300	105,420	135,520
25	94,125	131,775	169,400

*Expansion of Power Generation = 8% per year — 1980-1990
40 KW WTG = 85,000 KWH/Yr

**WECS = Wind Energy Conversion Systems 40 KW Rated Power
9.7 KW in 12-14 MPH Wind.

TABLE 4

ENERGY CAPTURE AND DIESEL OIL SAVINGS
MEDIUM SIZE WIND TURBINE
Energy Replacement Mode Only*

Year	Number of 40 kw Units	Annual Energy Capture (kwh) (Million)	Diesel Oil Savings Barrels Annual (000)	Diesel Oil Savings Barrels 25 Years (000)	Diesel Oil Savings Dollars Annual (000)	Diesel Oil Savings, Energy Replacement, 25 Years* Annual Percentage Increase in Price of Oil -0-	5%	10%	15%
						Dollars in Millions			
1	100	10	9.7	242.5	$406.2	$10.1	$22.8	$35.5	$48.2
2	300	30	29.1	727.5	1,218.6	30.5	68.5	106.6	144.7
3	600	60	58.2	1,455.0	2,437.2	60.9	137.1	213.3	289.4
3	1,000	100	97.0	2,425.0	$4,062.0	$101.5	$228.4	$355.4	$482.3
1 40kw unit only = 100,000			97.0	$2,425.0	$4,062.0	$101,550.0	$228,487.0	$355,425.0	$482,362.0

Note: Above computations are based upon the following assumptions:

- Mean annual wind speed - 13-14 mph
- 40 kw wind generator = 100,000 kwh per year energy capture
- 1 kwh electricity = 3,412 BTU
- 1 gal #2 diesel fuel = 84,000 useful BTU
- 1 gal diesel fuel = $1.00/gal (0% increase per year column above)
- 1 barrel = 42 gallons
- Annual increase in fuel costs = 0, 5, 10 and 15%
- Wind turbine generator life = 25 years
- Wind generators are deployed in areas where diesel power generation predominates

*Energy Replacement

TABLE 5

WIND RESOURCES, RURAL ENERGY REQUIREMENTS AND EXPORT POTENTIAL

Wind Systems Exports			1 Antigua	2 Cuba	3 Dominican Republic	4 Haiti	5 Jamaica	6 Trinidad Tobago	7 Guyana	8 Surinam	9 Puerto Rico
% of Area in Estimated Annual Wind Speed Classes											
								Percent of Area			
Wind Class	Wind Speed, 20m (66 Ft.) M/S	MPH									
1	<4.9	<11.0	-	80	50	60	-	-	85	85	-
2	5.3	11.8	-	10	20	25	75	75	10	10	-
3	5.9	13.2	50	06	28	15	25	25	03	03	80
4	6.4	14.3	50	02	02	-	-	-	02	02	20
5-7	>6.4	>14.3	-	02	-	-	-	-	-	-	-
3-7	5.9- 6.4	13.2- 14.3	100	10	30	15	25	25	05	05	100
1-7	<4.9->6.4	<11.0->14.3	100	100	100	100	100	100	100	100	100
Rural Energy Requirements							KWHs/YR (in millions)				
Agriculture											
Irrigation			-	876	162	84	38	24	146	36	-
Livestock Watering			18	13,700	3,804	2,432	704	172	982	52	-
Rural, Residential/Commercial			12	611	508	618	177	127	92	38	153
Total			30	15,187	4,474	3,134	919	323	1,220	126	153
Export Potential*											
1	Agriculture		†	o	•	•	†	•	•	o	•
2	Residential/Commercial		o	†	•	o	o	•	†	o	o
3	Industry, Light		o	†	†	†	†	†	†	†	o
4	Industry, Heavy		o	o	o	o	o	o	o	o	o
5	Utility, Non Grid		o	o	•	•	•	•	o	o	•
6	Utility, Grid		†	†	†	†	†	†	†	†	†
7	Special Applications		o	o	•	•	•	•	o	o	•

*• = Application potential exists within the country and sufficient need and interest exists without major import barrier for sales
o = Potential exists but there are barriers to market development and penetration is questionable
† = No application potential

Source: Prospects for Foreign Applications of Wind Energy Systems - SERI July 1981.

24-182 O—83——17

WIND RESOURCES, RURAL ENERGY REQUIREMENTS AND EXPORT POTENTIAL

Wind Systems Exports			10 Guadelupe	11 Martinique	12 Dutch Antilles	13 Barbados	14 Bahamas	15 Belize	16 St. Lucia	17 Grenada	18 St. Vincent
% of Area in Estimated Annual Wind Speed Classes								Percent of Area			
Wind Class	Wind Speed, 20m (66 Ft.) M/S	MPH									
1	<4.9	<11.0	-	-	-	-	-	30	-	-	-
2	5.3	11.8	-	-	-	-	-	70	-	-	-
3	5.9	13.2	100	100	-	-	100	-	100	100	100
4	6.4	14.3	-	-	-	100	-	-	-	-	-
5-7	>6.4	>14.3	-	-	100	-	-	-	-	-	-
3-7	5.9- 6.4	13.2- 14.3	100	100	100	100	100	-	100	100	100
1-7	<4.9->6.4	<11.0->14.3	100	100	100	100	100	100	100	100	100
Rural Energy Requirements								KWHs/YR (in millions)			
Agriculture											
Irrigation			2	2	-	-	-	-	1	-	1
Livestock Watering			180	114	20	66	26	102	36	-	18
Rural, Residential/Commercial			28	20	-	22	13	11	19	16	16
Total			228	136	20	88	35	113	56	16	35
Export Potential*											
1 Agriculture			•	†	o	o	†	†	o	†	o
2 Residential/Commercial			o	o	•	o	o	†	o	o	o
3 Industry, Light			†	†	o	o	†	†	†	†	†
4 Industry, Heavy			o	o	o	o	o	†	†	o	†
5 Utility, Non Grid			•	o	•	o	†	o	o	o	o
6 Utility, Grid			†	†	†	†	†	†	†	†	†
7 Special Applications			o	•	•	o	o	o	o	o	o

*• = Application potential exists within the country and sufficient need and interest exists without major import barrier for sales
o = Potential exists but there are barriers to market development and penetration is questionable
† = No application potential

Source: Prospects for Foreign Applications of Wind Energy Systems - SERI July 1981.

WIND RESOURCES, RURAL ENERGY REQUIREMENTS AND EXPORT POTENTIAL

% of Area in Estimated Annual Wind Speed Classes			19 U.S. Virgin Islands	20 Dominica	21 French Guinea	22 St. Kitts/ Nevius	23 Cayman Islands	24 Monserrat	25 British Virgin Islands	26 Anguilla	27 Turks and Caicos
Wind Class	Wind Speed, 20m (66 Ft.) M/S	MPH	Percent of Area								
1	<4.9	<11.0	-	-	80	-			-		
2	5.3	11.8	-	-	10	-			-		
3	5.9	13.2	100	100	10	100			100		
4	6.4	14.3	-	-	-	-			-		
5-7	>6.4	>14.3	-	-	-	-	No est.	No est.	-	No est.	No est.
3-7	5.9- 6.4	13.2- 14.3	100	100	10	100			100		
1-7	<4.9->6.4	<11.0->14.3	100	100	100	100			100		
Rural Energy Requirements			KWHs/YR (in millions)								
Agriculture											
Irrigation			8	-	-	-			8		
Livestock Watering			10	370	6	34			10		
Rural, Residential/Commercial			8	13	5	11			8		
Total			26	383	11	45			26		
Export Potential*											
1 Agriculture			†	†	o	†			†		
2 Residential/Commercial			•	o	o	o			•		
3 Industry, Light			†	†	†	†			†		
4 Industry, Heavy			•	o	o	†			•		
5 Utility, Non Grid			o	o	o	o			o		
6 Utility, Grid			†	†	†	†			†		
7 Special Applications			o	o	o	o			o		

*• = Application potential exists within the country and sufficient need and interest exists without major import barrier for sales
o = Potential exists but there are barriers to market development and penetration is questionable
† = No application potential

Source: Prospects for Foreign Applications of Wind Energy Systems - SERI July 1981.

Statement of Florida Fruit & Vegetable Association, Submitted by John M. Himmelberg, Esq.

The Florida Fruit & Vegetable Association ("Association") has previously presented its views on the Caribbean Basin Initiative [CBI]. However, the Association is concerned with the inclusion of Cuba as a possible beneficiary of the entitlement of duty-free trade given the knowledge of Soviet-backed, Cuban-managed support for violent revolution in Africa and South and Central America.

Administration officials are reported to have said that Cuba would not participate in the aid and trade plan (Congressional Quarterly, February 27, 1982, page 485) and we have been so assured. But, even armed with such assurances we do not see any positive reason to keep Cuba's name on the list of potential beneficiaries. Further, through identification with the principles of Marxist-Leninist ideology, establishment of a political, economic and social system based on that doctrine and acceptance of military assistance from extra-continental Communist powers, Cuba has rendered itself ineligible under legislative provisions that disallow the President to designate any country as a beneficiary that is Communist. Moreover, recent reports reflect Cuba's intentions to influence events in Central America and in the Caribbean Islands. See Washington Post, June 3, 1983, A-1, Col. 6 entitled "Cuba Seeks Ties to West".

While Cuba has exempted itself on the basis of its inability to share a commitment to democratic forms, it was included on the list of beneficiary countries because of the possibility that its political future may differ from the political present. In naming Cuba as a potential beneficiary country, the Administration has allowed itself to consider the "successor political entities" of eligible countries which gives Cuba 12 years (the duration of duty-free trade under CBI) to convert to democratic ways.

Rather than trying to provide for Cuba now in this legislation, the Association believes that Cuba should be exempt as a potential beneficiary country. Let Cuba's "successor political entity", whatever it may be, make its own way in international trade policy. Corrective legislative action to permit Cuba to receive the benefits of this legislation can be taken when the situation justifying such a change warrants it.

Accordingly, we respectfully request that Cuba be stricken from the list of potentially eligible countries in this legislation.

Statement Submitted by John M. Himmelberg, Esq., of Behalf of the Florida Tomato Exchange

INTRODUCTION

Mr. Chairman, thank you for giving me the opportunity to share the views of the Florida Tomato Exchange ("Exchange") with this committee. My name is John Himmelberg and I am an attorney with the law firm of Barnett & Alagia in Washington, D.C. and Palm Beach, Fla. I am authorized to present the Exchange's views before this committee.

The Florida Tomato Exchange is a non-profit cooperative, agricultural association whose members represent approximately 80 percent of the volume of fresh tomatoes shipped from the State of Florida. For your information, the Florida tomato industry shipped in excess of $257 million worth of tomatoes out of Florida last season which represents more than one third of the total value of all fresh vegetables produced in Florida. The Florida tomato industry alone provides jobs for many thousand workers, many of whom are not qualified for other employment due to their education and background.

The Florida tomato industry at one time provided nearly all the tomatoes consumed in the United States during the winter months. However, a large part of the market was lost to unrestrained import from Cuba; and, since trade relations with that country terminated in 1960, Mexican shipments of tomatoes and other winter vegetables have increased dramatically, and now seriously jeopardize, the future of Florida's largest vegetable industry.

The Florida tomato industry has taken meaningful steps to regulate unfair domestic practices by adopting a federal marketing order and by organizing the Florida Tomato Exchange. These efforts, however, have been and continue to be seriously undercut due to preferential treatment of imports by the U.S. Government.

SUMMARY OF COMMENTS

I. After considering the original Caribbean Basin Initiative trade concept of across-the-board one-way free trade in comparison with the current legislation that embodies exceptions for a dozen disparate articles, the Florida Tomato Exchange ("Exchange") has notable concern for the number of other products that have not been included in the evolving list of exempted articles. As lobbying efforts intensify to exempt more and more dutiable imports from the proposed legislation, the one-way free trade aspect of the initiative become less of a "centerpiece" and more of a figurehead behind which certain industries can find relief. Thus, this legislation fails to achieve its stated goals and seriously undermines the concepts of both free and fair trade.

II. The CBI, because of its grant of preferential treatment to CBI countries and not other countries with which it trades, will require a waiver from the General Agreement of Tariffs and Trade by the United States. Asking to trade with one group of people in a special way in asking members of GATT to make an exception that could set a counterproductive precedent for future trade relations.

III. Cuba should be excluded as a possible beneficiary of the entitlement of duty-free trade given the knowledge of Soviet-backed, Cuban-managed support for violent revolution in Africa and South and Central America.

IV. The proposed Caribbean Trade Institute provided for in section 106 of the pending legislation should be established in Miami, Fla., instead of Harlem, N.Y., given Florida's dominant role in trade matters with Caribbean Basin and South American countries.

COMMENTS AND RECOMMENDATIONS

When President Reagan first made an appeal for a plan to bolster economic development of an make possible the achievement of a lasting political and social tranquility of the Caribbean Basin, he let the words ring in his listeners' ears like a pealing bell attempting to draw North Americans together in support for our struggling neighbors, the Central Americans.

He outlined for the American people before Congress a three-pronged plan of Presidential authority to grant millions of dollars in aid, tax incentives to investors in the area, and one-way free trade. Yet, the Administration admitted and recognized, opening certain "sensitive" markets to direct competition with U.S. producers would indeed have an effect on these markets though allegedly minimal. In proposing the elimination of duties to all imports from the Caribbean Basin the Administration had to make this recognition of negative impact to particular markets as a congressionally mandated procedure of the Generalized System of Preferences was already in place making it possible to designate certain commodities as sensitive. But the administration clearly articulated that the long-term benefits of the plan were both in our interest as North Americans and in their interest as Central Americans.

For all of the economic impact analyses conducted, none attempted to analyze the impact of the Caribbean Basin plan on a State-by-State basis apparently because the initiative was intended as a national effort, a neighbor helping a neighbor. It was a case of the United States picking up the tab for this worthy project.

The words of the adminstration took their form in the 97th Congress as H.R. 5900, "To promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin Region." While the basic proposal of across-the-board one-way free trade still rang clear in this piece of legislation, the list of articles eligible for duty-free treatment narrowed under section 103 from all articles to all except textile and apparel articles subject to textile agreements with special quantitative limitation provisions for sugars, sirups and molasses "to protect" a price-support program for sugar beets and sugar cane. Notably, the "minimal impact" of the CBI on even sensitive industries becomes significant enough to require special exemption provisions to minimize the threat of serious harm on certain industries. Apparently, some of the original listeners to the Administration's proposal had now been listened to as their special interest concerns to legislators were adopted. Already, across-the-board duty-free treatment, the bearing of the burden by all, was becoming a myth.

As in the 97th Congress, the 98th Congress has before it a similar bill to promote economic revitalization and facilitation of expansion of economic opportunities in the Caribbean Basin region, H.R. 2769. Again one-way free trade is addressed and provided for and again these provisions make a number of exceptions to exempt articles from the bill's coverage. Not only have textiles and apparels been exempted

but also additional products apparently of an "import-sensitive" nature have been included in the lengthening list of ineligible articles.

Under H.R. 2769 duty-free treatment shall not apply to (1) textiles subject to textile agreements, (2) apparel articles subject to textile agreements, (3) footwear, (4) handbags, (5) luggage, (6) flat goods, (7) work gloves, (8) leather wearing apparel, (9) tuna, (10) petroleum or any product derived from pertroleum. Why imports of these articles would be considered for protection is not altogether clear. But more important to notice is that the Administration's "centerpiece" offer of one-way free trade has eroded significantly. Moreover, if it is or has been determined that these items qualify for protection, then certainly such import-sensitive items as tomatoes should receive the same protection.

With perceptive foresight, President Reagan himself warned Congress in a March 17, 1982 statement on CBI to consider very carefully any changes in the administration's program saying: "The actions in trade, aid and investment are interrelated. Each supports the other, so that together they comprise a real spur toward the entrepreneurial dynamism which the area so badly needs. *A significant weakening in any of them could undermine the whole program.*" [Emphasis added.]

The Exchange critically observes the undermining process with the increasing amount of special interest efforts and the increasing number of ineligible articles. Certainly, if such items as tuna are exempted, then all "import sensitive" items should be excluded.

In addition, efforts continue to expand the number of articles exempted from coverage which further undermines the goals of the legislation. For example, an April 28, 1983 version of the CBI legislation introduced by Mr. Gephardt (H.R. 2819) deems duty-free treatment inapplicable to the 10 items above as well as "import-sensitive" manufactured products and components of products such as watches, electronic articles, steel articles, and semi-manufactured and manufactured glass products. That's not all. Duty-free treatment is provided for products or parts of products that are the subject of bilateral restraints between the U.S. and other countries or that are subject to voluntary export restraints by any foreign country to the U.S. or that receive non-reciprocal treatment by the beneficiary country. Finds of injury under U.S. fair and unfair trade statutes will also preclude duty-free treatment under enactment of this bill. Furthermore, exemptions are sought for fresh citrus and citrus products and for the steel industry. We are chagrined that the exempt items in the bill (textile and apparel items, the non-GSP eligible items, tuna and petroleum and petroleum products) account for approximately 61 percent of the total U.S. imports from the region in 1962. See Congressional Record—Senate, June 8, 1983, S7973.

Thus, the promised across-the-board duty-free treatment is a myth—the burden of the legislation being borne by the 39 percent whose products have yet to be exempted. Of this 39 percent, some, like tomatoes, have demonstrated sustained import-sensitivity and, by definition, should be exempted.

The protectionist snowball rolls on to the detriment of a few industries acknowledged to be adversely affected. Certainly, tomatoes and other import-sensitive products should receive at least the same kind of protection as the Administration has determined to be warranted for the exempted commodities. Indeed, to be fair, either all or none of the commodities which are import-sensitive should be exempt from coverage of the CBI legislation. The initial appeal for help from the Administration to all domestic industries in the name of mutually beneficial long-term gain now appears to be without substance.

A second concern of the Exchange focuses beyond what CBI actually says to its relationship, or more explicitly its lack thereof, to the General Agreement on Tariffs and Trade. GATT, the multilateral agreement establishing standards and remedies in international trade requires from its subscribers, one of which is the U.S., a degree of continuity, support and adherence in trade practices. The U.S. is a principal member of GATT. CBI duty-free trade provisions are contrary to the GATT most-favored nation (MFN) requirements and a GATT waiver under Article XXV will technically have to be solicited by the U.S. if trade provisions are to be consistent with GATT provisions. In light of U.S. efforts to strengthen GATT, the Exchange questions the timing and implications of a request for a major departure from most-favored nation treatment. By implying a special relationship with regional preferences, the CBI may spur other countries desirous of entering the U.S. market to seek similar preferential treatment. This Committee should consider fully the implications of such a departure from GATT.

Further, consideration should also be given to the exclusion of Cuba as a possible beneficiary country. While Cuba has exempted itself under legislative provisions that disallow the President to designate any country as a beneficiary that is Com-

munist, it is included on the list of beneficiary countries apparently because of the possibility that its political future may differ from its political present.

Rather than trying to provide for the "successor political entity" of Cuba now in this legislation, corrective legislative action to permit Cuba to receive benefits of this legislation can be taken when the situation justifying such a change warrants it. Accordingly, the Exchange respectfully requests that Cuba be stricken from the list of potentially eligible countries in this legislation.

Finally, the Exchange questions the proposed consideration of Harlem, N.Y., as the site for establishment of a Caribbean Trade Institute. Given that Florida already serves as the gateway to the Basin and South America, and is considered the U.S. financial center for Central and South America, the more logical site for such an institute would be Miami, Fla.

In light of the above comments, the Exchange feels that CBI as presently proposed at a minimum should exclude duty-free treatment for perishable agricultural products (which the administration acknowledges are import-sensitive and, therefore compete directly with U.S. producers). The Exchange understands the problems that exist in the Caribbean Basin region and the need to provide support to the Caribbean Basin countries to help them help themselves. But the present CBI which now excludes many articles forces the Exchange to raise its concerns in advance rather than post factor. Adopting the CBI has the potential to cause serious problems for Florida tomato growers, other Florida and U.S. producers of import-sensitive commodities and labor. Moreover, with the list of items exempted increasing, the burden of the legislation will fall harder and unfairly on producers of those commodities not exempted.

The Exchange requests that the concerns raised above be addressed substantively before any action is taken on this legislation.

Mr. Chairman, the Exchange stands ready to assist you and the Committee in any way that we can. We are hopeful that the comments made herein together with those of other concerned and affected associations, industries, and individuals will assist the committee in its efforts to deal with rendering assistance to our neighbors in the Caribbean Basin area in a responsive fashion while at the same time fairly addresses legitimate interests of those affected in the United States.

INTERNATIONAL CENTER OF FLORIDA,
Coral Gables, Fla., July 7, 1983.

Hon. SAM M. GIBBONS,
Chairman, Subcommittee on Trade, Committee on Ways and Means, Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN GIBBONS: The following business and international associations in Florida urge enactment of the Caribbean Basin Economic Recovery Act:

International Center of Florida, Florida Council of International Development, Florida International Bankers Association, Greater Miami Chamber of Commerce, Florida International Insurance and Reinsurance Association, Insurance Exchange of the Americas, International Law Section of the Florida Bar, Coral Gables Chamber of Commerce, Tampa Bay World Trade Council, Palm Beach Trade Council.

The International Center of Florida (ICF) unites the interests of exporters, importers, bankers, multinational and service companies on issues that promote international trade and investment. The center, with some 400 corporate members, has taken a leading role in the international business community of South Florida. The International Center of Florida is pleased to present the views of Florida's key international business organizations.

Closer ties with the Caribbean Basin will create new business opportunities in the Caribbean. The CBI is good for Florida business. Increasing our trading partnership with the Caribbean remains a vital interest of the trade, transportation, and financial service industries in our area.

IMPACT ON FLORIDA

Because of Miami's geographic location, more and more trading companies and banking institutions have opened offices to service trade between nations of the Southern Hemisphere and Europe and the Far East.

Greater Miami in 1982 exported 7 billion dollars' worth of products to foreign countries and imported $3 billion. South America and the Caribbean Basin countries combined are the destination points for 80 percent of exports passing through South Florida seaports and airports. The Caribbean Basin is the largest source of

imports coming into the Miami Custom District, with 40 percent of all goods imported.

In Dade County alone, 100,000 people are employed in international trade-related areas: manufacturing, transportation, wholesale, trade, retail trade, finance and services. The economic impact of international trade in Greater Miami is equivalent to approximately a third of the County's gross domestic product. Any economic initiative that enhances the Caribbean, benefits the economy of Florida. As the Caribbean propsers this region will benefit as the shipping center for goods, both wholesale and retail.

We, in Florida, have another special interest for strengthening the economies of our neighbors to the South. It is critical that the nations of the Caribbean Basin offer their people an economically secure future or we can again expect to see thousands of Caribbean citizens seeking a better life on our shores. The United States Congress has the opportunity to support a proactive immigration policy instead of a policy reacting to emergencies. Sound U.S. immigration policy rests on passage of CBI economic program.

REMOVING TRADE BARRIERS

Policy makers realize economic well-being underlies political stability. U.S. foreign policy is best served by economic growth within the Basin.

The United States can help the Caribbean Basin countries achieve self-sustaining growth by further opening its markets to their products. Economic Caribbean depends on the opportunity for entrepreneurs to make an acceptable return on investment. In the Caribbean this requires a broader market. Access to U.S. markets will promote private initiative.

The Caribbean Basin Recovery Act addresses the issue of removing trade barriers. In fact, access to U.S. markets is the cornerstone of the Caribbean Basin Economic Recovery Act and provides 12 year duty-free access to the United States for many goods from Basin countries.

New trade opportunities form the basis for long-term productive economic growth in the Caribbean. Exports generate dollars sorely needed to pay for imports. The wherewithal to run productive export facilities depend on the importation of machinery and spare parts. Some critics, however, question the need for CBI legislation.

GSP

A large share of Caribbean Basin exports already enter the U.S. market duty-free under the U.S. Generalized System of Preferences [GSP]. The GSP extends duty-free access to many products of developing nations, including the Caribbean.

However, January 3, 1985, the GSP is scheduled to expire and it is not certain what revisions will be made. Moreover specific articles may be added or deleted from the GSP list each year through petition by interested parties or automatic quantitative restriction.

The Caribbean Basin Recovery Act provides a much stronger guarantee for trade preference: 12 year duty-free access to Caribbean products entering the United States. Such long-term trade preference will spur potential investment in plant and equipment. A guaranteed tariff preference provides the equipment edge.

U.S. labor and business interests are protected under the proposed Caribbean Basin Recovery Act. Responding to previous AFL–CIO criticism, H.R. 2769 requires that 35 percent rather than 25 percent of the value of goods eligible for duty-free access to U.S. markets be derived from material and labor available in the Caribbean Basin nations. Merchandise must be "substantially transformed" in the Caribbean prior to duty free entry. This provision protects U.S. producers from unfair competition. It prevents the Basin area to be used merely as a transshipment point for products from developed countries. Freer trade with the Caribbean may provide some labor dislocation in the United States but, on balance, the increase in new production facilities in the Basin countries will stimulate U.S. export demand, boosting U.S. employment.

Moreover, the President has the power under the Caribbean Basin Recovery Act to suspend duty-free status for eligible articles upon a finding of serious injury, or threat of serious injury, to domestic industry by the U.S. International Trade Commission. Also, emergency import relief is provided perishable products, including citrus. Further textiles, footwear, leather apparel and sugar have been excluded from duty-free entry.

Protectionist sentiment must be carefully balanced against overall national interest. We belive U.S. self-interest is served by opening U.S. markets to Caribbean products.

We urge your active support for passage of the Caribbean Basin Recovery Act.

THOMAS G. TRAVIS,
Vice President Legislative Affairs.

JOINT STATEMENT OF THE LEATHER PRODUCTS COALITION

Our written testimony is on behalf of several industry trade associations and labor unions in the leather-related products sector. The products with which we are concerned are footwear, luggage, flat goods, work gloves, handbags, and leather wearing apparel. The subject of our appearance, the Caribbean Basin Initiative as passed by the House last year and reported out favorably by the Senate Finance Committee several weeks ago and as reintroduced in the House this year (H.R. 2769), appropriately addressed the very serious concerns which we had about duty-free treatment for leather-related products when the CBI was originally proposed by the administration. Specifically, we refer to the exemption in H.R. 2769 of leather-related products from duty-free treatment included in section 103(b).

We should like to advise you that the Footwear Division of the Rubber Manufacturers Association [RMA] has asked to be associated with our remarks. As you know, all footwear is exempted from duty-free treatment under H.R. 2769 and we are happy to have the RMA associated with our testimony.

As a coalition, we fought a long, uphill, but ultimately successful, battle last year to convince the Congress and finally the administration that it would be a cruel blow to our industries and workers if our products were to be afforded duty-free treatment under the CBI; the arguments are no less valid today. If anything, conditions in our respective industries are far worse than they were when the administration first proposed the CBI in early 1982. Indeed, during 1982, the unemployment rate in the leather-related products sector rose from 13.1 to 17.4 percent.

In this regard, we call your attention to the table we have attached to our testimony on selected economic indicators of the health of the leather-related industries. The table reveals that:

For those leather-related industries where employment data are available, the data show almost 10,000 jobs lost in the nonrubber footwear industry, 1,200 jobs lost in the luggage industry and 2,400 jobs lost in the personal leather goods (flat goods) and handbag industries between 1981 and 1982. Data through the first quarter of 1983 show losses of an additional 5,500 jobs in the footwear industry, 1,500 jobs in the luggage industry and 3,800 jobs in the personal leather goods and handbag industries thus far this year.

Imports of leather-related products were up by record numbers in 1982 as evidenced by the staggering increase in nonrubber footwear imports which increased from 375 million to 480 million pairs, and luggage and leather wearing apparel imports which rose by $43 million and $45 million, respectively. First quarter 1983 data reflects continued substantial increases in imports of leather-related products.

Import penetration for the entire leather products sector is at already unacceptably high levels. The latest available data show footwear at 64 percent, luggage at 40 percent, personal leather goods (flat goods) at 30 percent, handbags at 80 percent, leather work gloves at 56 percent, and leather apparel at 56 percent.

These worsening conditions are precisely why we have asked for time to address the committee. While our products are exempted in the current version of the bill now before the committee, we do not want to see this exemption reversed for lack of understanding as to why the Administration's original proposal was later amended in this very Committee to exempt our products.

We have never disagreed with the highly laudable goals of the Caribbean Basin Initiative. Having said this, however, we must also speak to the enormous vulnerability of our products to imports and the already highly competitive nature of the leather products industries in the Caribbean—a fact evidenced by the 30 percent per annum growth rate of Caribbean exports to the United States in this product sector over the past several years.

Not only are leather products imports from the Caribbean sizeable and growing, together with imports from other countries, they are also increasing their penetration of the U.S. market. Imported handbags from all sources, for example, accounted for 29 percent of the U.S. market in 1967 but held almost 80 percent in 1982. Over the same period, imports of nonrubber footwear increased their share from 18 to 60 percent, and have increased to 64 percent in the first quarter of 1983. The trend is

the same for each of the other products, and the point is that Caribbean exporters do not need duty-free entry in order to penetrate and compete in the U.S. market.

Moreover, increased imports of leather-related products from the Caribbean under one-way free trade would not replace imports from other countries but would be at the expense of U.S. firms and their workers. Over the years, many developing-country producers have entered the U.S. leather products market with few displacements, if any, of older developing-country suppliers.

Our industries are labor intensive and employ about 225,000 workers. They are mostly semi-skilled, and many are women and minorities. In addition, these industries provide many entry-level jobs for people under 25, and employ a very high percentage of people over 50. Both age groups are the hardest to employ and have the highest unemployment rates. The loss of jobs for these people would be tragic, even more so in light of both the reduction in Federal funds for trade adjustment assistance and the reduced ability of State governments to offer assistance as they take on additional burdens.

The Congress and the executive branch have already recognized the import-sensitivity of the leather-related industries. All footwear was specifically excluded from the Generalized System of Preferences [GSP] in the Trade Act of 1974. Virtually all leather-related products have been found to be import sensitive in the context of the GSP. The International Trade Commission [ITC] found that imports were a substantial cause of the injury suffered by the leather apparel and nonrubber footwear industries. Furthermore, four of the leather-related industries represented here today—footwear, luggage, work gloves, and handbags—have received Department of Commerce grants to improve their competitiveness vis-a-vis imports, specifically because they were determined, under government guidelines, to be import-impacted. It is important that the U.S. Government not undo with one hand what it has done with the other.

Without our exemption, the CBI safeguard measures as included in H.R. 2769 would be virtually meaningless for our industries. Such safeguards are simply inadequate to protect U.S. firms and workers from injury due to increased imports generated by one-way free trade. It is characteristic of these industries that imports can increase rapidly before safeguard action can be taken, regardless of how good the intentions of the executive branch may be. Certainly the record of the "escape clause" in the United States leaves serious doubt as to how effective a safeguard would be under the CBI. Out of the 47 investigations completed to date under section 201 of the Trade Act of 1974, only 10 have resulted in any measure of import relief. These industries, particularly leather wearing apparel and nonrubber footwear which were denied import relief by the White House after affirmative injury findings by the ITC, have concluded that when safeguard mechanisms are tied to Presidential discretion, they cannot afford to have much confidence in them.

In conclusion, with substantial and growing import penetration, the leather-related industries are already in a state of siege. They have suffered from plant closings and lost jobs due to imports. These industries look to Congress for help in preventing further damage. Congress has by its past actions recognized the import-sensitivity of this sector. It was after all this committee that recognized the potential harm to these import sensitive industries of the CBI's one-way free trade provisions and subsequently acted to exempt all leather-related products from duty-free trade. If this committee moves forward with the trade provisions of the Caribbean Basin Initiative, the leather products exemption must remain intact. To do otherwise would be to ask this small sector to shoulder the full burden of U.S. foreign policy objectives.

Attachment.

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Nonrubber Footwear	Luggage	Personal Leather Goods	Handbags	Leather Apparel	Leather Work Gloves
Employment						
(number of employees)						
1977	156,900	17,300	33,100		6,700	5,500
1980	143,600	16,300	30,000		5,000	6,100
1981	146,400r	15,200r	30,600r		N/A	N/A
1982	136,800r	14,000r	28,200r		N/A	N/A
Jan.-Mar. 1982	138,000r	14,100r	28,900r		N/A	N/A
Jan.-Mar. 1983	132,500	12,600	25,100		N/A	N/A
Production/Shipments						
	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1977	418.4r	585.0	369.0	55.8	150.9	3,710
1980	386.3r	808.0	426.0	50.8	192.6	2,878
1981	380.4r	865.0(E)	439.0(E)	53.3	186.5	2,756
1982	331.4r	813.0(E)	413.0(E)	N/A	N/A	2,400(E)
Jan.-Mar. 1982	86.5	N/A	N/A	N/A	N/A	N/A
Jan.-Mar. 1983	91.2	N/A	N/A	N/A	N/A	N/A
Imports						
	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	479.5	334.8	87.5	409.6	252.0	3,091
Jan.-Mar. 1982	129.8	67.4	18.2	91.1	34.2	759
Jan.-Mar. 1983	160.4	77.1	20.5	106.7	39.4	778
Import Penetration*						
(percent)						
1977	47.1	N/A	N/A	62.9	N/A	36.8
1980	49.5r	N/A	N/A	75.4	N/A	52.4
1981	50.4r	40.0(E)	30.0(E)	78.8	56.0(E)	52.2
1982	59.8r	N/A	N/A	80.0(E)	N/A	56.3
Jan.-Mar. 1982	60.6	N/A	N/A	N/A	N/A	N/A
Jan.-Mar. 1983	64.3	N/A	N/A	N/A	N/A	N/A

* Where import and domestic production data are available only in terms of value, import penetration has been estimated.

r -- revised.

(E) -- Estimated.

N/A -- Not available.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce and Bureau of Labor Statistics data.

STATEMENT OF THOMAS E. O'NEILL, GENERAL COUNSEL, NATIONAL ASSOCIATION OF BEVERAGE IMPORTERS, INC.

Introduction

In regard to H.R. 2769, the Caribbean Basin Initiative, the following submission is made on behalf of the members of the National Association of Beverage Importers in general support of the proposed Caribbean Basin Economic Recovery Act. The National Association of Beverage Importers, hereafter NABI, is the national trade association of beverage alcohol importers comprising in its membership over 100 importers of wine, spirits and beer. Together, this membership is responsible for the importation of about 80 percent of the distilled spirits imports into the United States.

NABI position

NABI endorses the principle of free trade and the elimination of trade barriers. Accordingly, NABI goes on record with the Ways and Means Committee as supporting Title I of H.R. 2769 which proposes duty-free treatment to the products of beneficiary countries. NABI's specific interest under this Section is the prospective granting of duty-free treatment to run.

Puerto Rican and Virgin Islands Governments oppose duty-free treatment

It is understandable that the governments of Puerto Rico and the Virgin Islands are concerned over the prospective reduction of the imported rum duty of $1.57 per proof gallon to zero. However, this would be merely giving equal treatment in the marketplace to all Caribbean rums, since neither Puerto Rican nor Virgin Islands rum currently bears any import duty.

Puerto Rican and Virgin Islands rums dominate the U.S. rum market

The current competitive situation between duty-paid imports of rum and shipments of rum to the United States from Puerto Rico and the Virgin Islands is quite one-sided. Total shipments from Puerto Rico and the Virgin Islands in 1982 amounted to 22.9 million proof gallons. During this same year, total shipments of duty-paid imports of rum amounted to 773,706 gallons, down from 968,803 gallons in the previous year. In terms of competitive position, this shows Puerto Rican and Virgin Islands rum with almost 97 percent of the market and all other rum constituting 3.3 percent of the market. An import penetration level of 3 percent can hardly be considered significant in terms of potential harm to the Puerto Rican and Virgin Islands' industry. This is particularly true where there is no "dumping" and where there is no subsidy or countervailing situation. Zero duty for Caribbean rum would produce a situation where the Caribbean rums would be competing on equal tariff footing with Virgin Islands and Puerto Rican rums.

History of rum duties

Duties on imported rum have remained at relatively high levels for 30 years. The following table if import duties on bottled distilled spirits since Repeal shows that rum duties in 1952 were higher than any other distilled spirits import duties. This situation has continued to the present day, with the exception of certain penalty rates on bottled tequila and imported brandy, and vodka with certain value designations. Currently, in 1983, the rum duty is roughly three times the average duty on other major categories of imported spirits. The following table illustrates the glaring inequity of the current rum duty.

TABLE I.—BASIC IMPORT DUTIES ON BOTTLED DISTILLED SPIRITS SINCE REPEAL[1]

	1933	1943	1952	1963	1972	1983	1987
Canadian whisky	$5	$2.50	$1.25	$1.25	$0.62	$0.43	$0.25
Scotch and Irish whisky	5	2.50	1.50	1.02	.51	.35	.20
Rum	5	2.50	1.75	1.75	1.75	1.57	1.40
Gin	5	2.50	1.25	1.00	.50	.50	.50
Brandy	5	2.50	1.25	1.25	.62	.87	.50
Cordials and liquers	5	2.50	1.25	1.00	.50	.50	.50
Tequila	5	2.50	1.25	1.25	1.25	2.27	2.27
Vodka	5	2.50	1.25	1.25	1.25	.87	.50

[1] The table is illustrative of the broad duty situation on spirits. Being incomplete, it does not show all categories of distilled spirits, nor bulk rate, nor "penalty rates" on such items as brandy, vodka, et cetera.

The only relief given to imported rums since 1952 has been a 20 percent duty reduction, staged over 8 years, as a result of the so-called Tokyo Round. Reproduced below are the staged rates of duty for rum between 1979 and 1987.

TABLE II

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Rum:									
Bottled	$1.75	$1.70	$1.66	$1.62	$1.57	$1.53	$1.48	$1.44	$1.40
Bulk	1.75	1.70	1.66	1.62	1.57	1.53	1.48	1.44	1.40

Even after the full implementation of the foregoing 20 percent duty reduction, rum would still bear a duty of nearly 300 percent of the basic duty on gin, brandy, cordials and vodka.

H.R. 2769 proposes a bounty or grant to the governments of Puerto Rico and the Virgin Islands

In spite of the domineering position of Puerto Rico and Virgin Islands rum in the U.S. market, representatives of these governments have prevailed upon legislators for protective treatment in H.R. 2769.

Section 201 of the bill would provide that all excise taxes (at $10.50 per gallon) collected on rum imported into the United States would be remitted to the treasuries of Puerto Rico and the Virgin Islands. Subsection (2) empowers the Secretary of the Treasury to provide a formula for the division of revenue. Presumably this would bear some direct proportional relationship to the rum production and/or shipment to the United States by Puerto Rico and the Virgin Islands.

This would provide a windfall of significant magnitude to these insular possessions. In 1982 duty-paid rum imports from beneficiary countries to the United States amounted to 700,590 proof gallons. Based on this figure, the payments to these insular possessions would be over $7,356,000 per year; but with increases expected and designed by the proposal, Puerto Rico and the Virgin Islands could expect to divide an additional and increasing amount each year.

The quantification of this windfall is immediately apparent when the rate of bounty at $10.50 per proof gallon is viewed in relation to the value of the merchandise. The following table shows Puerto Rican and U.S. Virgin Islands shipments to the United States in 1982.

TABLE III.—PUERTO RICAN AND VIRGIN ISLANDS RUM SHIPMENTS [1]

Country	Gallons	Values	Average value proof gallons
Puerto Rico (bottled)	7,293,574	$44,043,192	$6.04
Puerto Rico (bulk)	12,540,743	53,288,532	4.25
U.S. Virgin Islands (bottled)	56,059	230,166	4.11
U.S. Virgin Islands (bulk)	3,085,820	4,655,795	1.51

[1] Source: Bureau of the Census publications EM-594 and IM-161.

This shows that Puerto Rico and the U.S. Virgin Islands would receive a bounty of nearly 700 percent over the value of the bulk rum produced in the Virgin Islands and 255 percent over the value of bottled rum. Similarly, Puerto Rico would receive a bounty of 247 percent over the value of bulk rum produced in Puerto Rico, and 174 percent over the value of bottled rum.

The following table shows 1982 imports of rum from the Caribbean countries which would benefit from the elimination of duty on rum.

TABLE IV.—1983 IMPORTS OF RUM FROM CARIBBEAN COUNTRIES [1]

Country	Gallons	Values	Average value proof gallon
Antigua (bottled)	525	$4,754	$9.055
Bahamas (bottled)	10,124	87,005	8.594
Barbados (bottled)	19,263	156,003	8.099
Barbados (bulk)	66,373	245,049	3.692
Dominican Republic (bulk)	42,778	59,123	1.382
Guyana (bottled)	20,940	204,842	9.782
Guyana (bulk)	20,202	68,705	3.401
Hatti (bottled)	12,675	128,685	10.153
Jamaica (bottled)	53,270	490,547	9.209
Jamaica (bulk)	443,559	2,031,844	4.581
Trinidad (bottled)	2,717	26,987	9.933
Netherlands Antilles (bottled)	672	10,014	14.902
British Virgin Islands (bottled)	7,492	128,705	17.179
Total	700,590	3,642,263	5.199

[1] Source: Bureau of the Census publication IM–146X.

The comparison of table III with table IV illustrates the point that the windfall to Puerto Rico and the Virgin Islands by way of payment to these insular possessions of excise taxes collected on imported rum is higher than the total value of the imported rum itself. Specifically, Caribbean rum imports to the United States in 1982 amounted to 700,590 gallons, with an excise tax yield of $7.36 million. The total value of this merchandise was $3.6 million. Accordingly, Puerto Rico and the Virgin Islands would receive a bounty of over double the value of the competing merchandise.

Competitive conditions between rums

A further comparison of the two foregoing tables illustrates the competitive position as among rums from various countries. First, the value of rum imports from Caribbean countries in all instances except the Dominican Republic, were higher than values on Puerto Rican and the Virgin Islands rum. Given the free play of the marketplace with no duty on any rums, there is still the high price for Caribbean imports. This means that the elimination of duty could not have any significant effect in displacing Puerto Rican and the Virgin Islands exports to the United States, because of the single fact of cost.

This advances the second point: with less than 4 percent of the rums currently coming to the United States from outside Puerto Rico and the Virgin Islands, there is consumer preference for Puerto Rican and Virgin Islands rum over the rums of the other Caribbean nations. Even if price were not a controlling factor, it would be a long time before Caribbean rums could begin to alter the dominant position of Puerto Rico and Virgin Islands in the rum market. This is further overlaid with the fact that this duty-free treatment would last for only 12 years.

The bill would guarantee against market dominance by Caribbean rums

Section 104(c) provides further protection against what must be regarded as an impossible event. This section states:

"(c) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico or the United States Virgin Islands pursuant to section 7652(c) of the Internal Revenue Code of 1954 is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the United States Virgin Islands, then the President shall consider compensation measures and, in this regard, may withdraw the duty-free treatment on rum provided by this title. The President shall submit a report to the Congress on the measures he takes."

The foregoing seems to mean that if the Caribbean rums imported into the United States surpass Puerto Rico and Virgin Islands shipments, then the President can withdraw duty-free treatment for Caribbean rums. Considering a competitive position of 3 percent of the market, the possibility that Caribbean rums could attain 51 percent of such market is several quantum leaps into the remote.

Conclusion

NABI does not oppose nor take exception to the foregoing protections and windfalls of H.R. 2769. If the Congress deems these necessary for the U.S. insular posses-

sions, then so be it. The only point of emphasizing the generous extent of compensation to these governments is to underscore the fact that Puerto Rico and the Virgin Islands are adequately protected in this legislation.

NABI urges that this bill be reprinted favorably without any form of quota amendment on Caribbean rum imports.

CHAMBER OF COMMERCE OF PUERTO RICO,
San Juan, P.R., June 6, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: The purpose of this letter is to present to you and the Committee on Ways and Means the views and recommendations of the Chamber of Commerce of Puerto Rico regarding H.R. 2769 and the Caribbean Basin Initiative. The public hearing on the bill will take place on June 9, 1983. My preference would be to appear personally before the Committee. However, that will not be possible because the hearing date conflicts with our Annual Convention.

The Chamber of Commerce of Puerto Rico is a business association which includes diverse business firms and trade associations in its membership, and covers all business sectors and geographic areas on the Island.

THE CBI AND H.R. 2769

The Chamber of Commerce of Puerto Rico realizes the great importance that the Caribbean Basin Initiative and H.R. 2769 have for the United States, de CB beneficiary countries, and Puerto Rico. We support the bill's objectives of improving economic and social conditions in the Caribbean Basin countries and stabilizing the area, thus preventing security risks and excessive migration, and enhancing the purchases of U.S. goods from those countries.

The bill has many good features which do not need much commentary. It also has some important shortcomings, which we would particularly like to discuss in this writing. Our attitude and our basic position with respect to H.R. 2769 is positive and cooperative. Our support of the bill must be conditioned, however, to the adequate protection of Puerto Rico's interests in accordance with the following views and recommendations.

The beneficiary countries have quite a few important basic problems which would seem to require, not only a substantial amount of self help, but also of outside assistance, much beyond what is provided in H.R. 2769 and other assistance programs presently at work. On the one hand, it is indispensable that the CB countries themselves, their governments, business enterprises and people do their part in propitiating an adequate and attractive business climate that will stimulate investment, through proper laws, policies and attitudes.

On the other hand, with few exceptions, the countries have problems of malnutrition and health, low levels of education, extremely high levels of unemployment and underemployment, lack of managerial and technical skills, and lack of infrastructure facilities and services without which economic development is impossible. We realize that the main thrust of the CBI and H.R. 2769 is not aimed at dealing with such problems, but rather at trade development and private investment. However, in view of the conditions prevailing in the area, we believe that assistance to deal with such long-term problems warrants much greater importance.

DUTY-FREE TREATMENT AND TAX PROVISIONS IN H.R. 2769

Of particular concern to Puerto Rico is the fact that many of the products being produced in the BC countries and likely to benefit from duty-free treatment under H.R. 2769 are also produced in Puerto Rico. This is natural, since our Island has many climatic, geographic, cultural, social and economic conditions that are similar to those of several beneficiary countries.

It is also true and natural that the product exclusions and several other measures in H.R. 2769 tend to protect our industries and our economy. Even after considering such exclusions and protective measures, an examination of the list of dutiable products exported from the CB countries into the United States in 1980, and which can be potentially benefitted by H.R. 2769, shows that products presently produced in Puerto Rico could be particularly affected by the proposed duty-free treatment.

The aforementioned list is part of a study prepared in the Caribbean Basin Trade, Investment and Business Information Center of the U.S. Department of Commerce by Fredi Bove, International Economist, and was published on March 1982. It studies the impact on the United States of the proposed free trade area and, although a

state-by-state analysis is not made, the effects on Puerto Rico and the U.S. Virgin Islands are specifically examined, in recognition of the fact that "these U.S. possessions and territories have a similar industrial and agricultural base as the CB countries".

The study recognizes the special, potential impact of duty-free treatment on such imports as rum, drugs, analgesics, electronics and tobacco from Puerto Rico and the U.S. Virgin Islands. There are also significant threats to other agricultural products and to our convention business. Tuna canning, whose inclusion would threaten California'a as well as Puerto Rico's 6,000 job industry, has been excluded from H.R. 2769, which is of great importance to our Island.

RUM INDUSTRY

Concern about our rum industry and its contribution to Puerto Rican government income is extremely high in Puerto Rico, and is shared by our Government and our Chamber; $250 million in Puerto Rican government revenues (11 to 12 percent of its budget) and $100 million of income to the private sector per year are at stake. The $1.62 per proof gallon constitutes a substantial protection to our rum industry. The chances and the magnitude of potential damage from its proposed elimination are great, particularly within a few years, when possibilities of technology transfers (to improve quality of CB rums) and of increased capacity by big, multinational producers in the CB area would be fully realized. By then the full impact of our competitive disadvantage would also be felt.

Particularly important among our disadvantages are our higher cost of molasses and our dependence on CB countries for its supply; our higher salaries and wages; our higher cost and absolute dependence on U.S.-flag ships for transportation of rum to the mainland; and our stiff, federal, environmental protection regulations.

Puerto Rican Governor, Hon. Carlos Romero Barcelō, in a statement to the U.S. Special Trade Representative, has indicated that it would be highly discriminatory for the Federal Government to provide high protection to the U.S. sugar industry while it substantially withdraws such protection from the Puerto Rican and Virgin Islands rum industry. In all likelihood the Federal Government has not had the intention of discriminating; but the effects would be just the same.

The Chamber of Commerce of Puerto Rico considers that the protection presently afforded to the Puerto Rico and Virgin Islands rum industries is not adequate. We believe that the best manner of appropriately protecting out industry, while providing an incentive to the CB rum industry, is the latest proposal developed by the U.S. Virgin Islands Governor and their Delegate to Congress, supported by Puerto Rico's Governor and its Resident Commissioner in Washington, whereby CB bottled rum would be duty free while bulk rum would not. The proposal also involves the creation of a $10 to $15 million fund for infrastructural development in the CB region.

The aforementioned proposal, besides affording adequate protection to Puerto Rican rum, of which 64 percent was shipped in bulk in 1982, seems essential to the Virgin Islands industry, practically all of whose rum is shipped in bulk. Moreover, the proposal has been estimated by Virgin Islands economists to benefit more the CB countries, in terms of direct government revenues, than the present proposal, according to Attorney William Blum, legal counsel to the Virgin Islands Governor. The difference would be $100,000 in corporate taxes under the present proposal vis-a-vis $14.7 million in Federal excise taxes going to the CB government under the new proposal.

After considering the additional fact that the rum industry is not a labor-intensive, but rather a capital-intensive industry, the benefits to the CB countries seem more obvious. The Chamber of Commerce of Puerto Rico recommends that the new proposal be adopted by Congress.

AGRICULTURAL PRODUCTS

An examination of the list of dutiable products from CB countries which can potentially benefit from duty-free treatment (Annex 1 to the U.S. Department of Commerce Study previously mentioned) shows that tobacco products (cigars, scrap tobacco, wrapper tobacco, filler tobacco, and other tobacco items), fresh pineapples, fresh peppers, fresh mangoes, yams, and other starchy vegetables, avocados and other vegetables and fresh agricultural products figure prominently as important CB exports.

The government of Puerto Rico is afraid, and our chamber shares its concern, that present Puerto Rican efforts to develop its agriculture and produce a greater share of its food needs may be jeopardized by duty-free treatment to such CB exports. In consideration of both CB and Puerto Rican interests in this field, a compro-

mise solution is advisable, whereby tariffs on such products would be partially reduced but not totally eliminated.

ELECTRONICS INDUSTRY

Products such as electronic tubes, capacitors and resistors figure among the main exports from CB countries that can benefit from duty-free treatment. The three product categories just mentioned alone accounted in 1980 for over $100 million in imports from beneficiary countries such as Barbados, El Salvador, Haiti, and Costa Rica.

On the other hand, about 250 electronic plants in Puerto Rico provide many thousans of jobs and constitute one of our most important industries. The many, relatively unskilled, assembly operations involved, and the relatively low wages paid for such operations in the CB countries vis-a-vis Puerto Rico tend to indicate that this industry could be significantly affected by CB duty-free imports. Serious consideration should be given to providing at least partial protection to this industry through a reduction, but not the total elimination, of the exisiting tariff.

CONVENTION BUSINESS

Convention visitors constitute about 7 percent of all visitors to Puerto Rico. Last year 1,378 conventions were held in the Island. Our tourism has had a very poor season this year, affected by the recession and a relatively benign climate in the Mainland. A decline in the convention business would further hurt the industry.

Puerto Rico and the Virgin Islands have considerably benefited from the business convention expense deduction under section 602 of the Tax Reform Act of 1976. However, extension of the benefit to Jamaica and Mexico has already diluted the beneficial effect on Puerto Rico and the Virgin Islands. A further dilution of the benefits because of the extension of the incentive to other CB country conventions would further affect us.

Puerto Rico's hotels, the tourism industry in general, the Puerto Rican government and our institution see with great concern this provision of H.R. 2769 and consider fair that Canada, Mexico and Venezuela provide a similar deduction for conventions in Puerto Rico through tax treaties with the United States.

The Chamber of Commerce of Puerto Rico will sincerely appreciate that you take into consideration our recommendations to further protect our Island's economy under H.R. 2769 and the CBI. We also pledge our cooperation to help attain the CBI objectives.

Sincerely,

JOSE R. COLON, *President.*

WASHINGTON, D.C., *June 8, 1983.*

JOHN J. SALMON, Esq.,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. SALMON: I am writing to you in behalf of the Footwear Division of the Rubber Manufacturers Association with reference to the Ways and Means Committee consideration of H.R. 2769, the Caribbean Basin Initiative.

H.R. 2769 exempts from the one-way duty-free provision of the CBI all footwear, both non-rubber and rubber. The Footwear Division of the Rubber Manufacturers Association endorses this exemption, since the failure to include it would jeopardize the survival of what is left of the domestic rubber footwear industry. More than half of the market of this industry is now taken by imports.

Rubber footwear is a labor-intensive industry whose import sensitivity was recognized by the Government in both the Kennedy and Tokyo Rounds of Multinational Trade Negotiations, and whose duties were not cut in either of those negotiations. Moreover, products of this industry are exempted by statute from the Generalized System of Preferences.

When the CBI was before the Ways and Means Committee last year, I testified in support of an exemption for rubber footwear. As you know, the committee, and then the House, did adopt such an exemption, comparable to the one which is included in H.R. 2769.

Sincerely yours,

MITCHELL J. COOPER.

SYNTEX CORP.,
Palo Alto, Calif., May 23, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Syntex Corp. respectfully wishes to file comment upon the Caribbean Basin Economic Recovery Act (herein referred to as the "Act") which is under consideration by the Ways and Means Committee.

Syntex Corp. is dedicated to research in the life sciences. Our human health and life science products include pharmaceuticals; veterinary drugs; animal health products; dental instruments, equipment and models; diagnostic assay systems; fine chemicals; and opththalmic products. Syntex' diverse international activities presently include manufacturing facilities in the Caribbean Basin.

Syntex Corp. is fully supportive of the objectives of the Act, and wishes to endorse the following philosophies.

1. That trade and business activities between countries develops a commonality of interest which lends to closer political, cultural and philosophical relationships. The CBI program is a critical aid in fostering trading relationship with these developing countries and its enactment is in the best long term interests of the U.S. and the Free World.

2. That the rules of origin be revised, as follows:

A. The local content requirement be reduced from 35 to 25 percent alternatively, the methodology for calculating "origin" be harmonized with the E.C. or Canadian system as not to exclude research intensive products which, by their nature, possess a labor and material content disproportionate to their appraised value. We believe that in order for CBI to achieve its stated purpose, duty-free treatment must be accorded to all business sectors.

B. U.S. origin materials and services must be included in the local origin calculation without the need to satisfy the substantial transformation requirement. This practice would be consistant with all other developed nations' GSP programs and encourages an impetus for reciprocity.

3. That reciprocity not be considered as a condition of the CBI program. During the forging of the European Community's Lomé Convention in 1973, the E.C. member states not only renewed the trade concessions granted under the Yaoundé Convention, they went a step further and renounced their claims to reciprocal treatment for their own exports. We concur with this approach and believe reciprocity to be counterproductive, as a condition of CBI.

4. That the term of CBI remain at the proposed 12 years since any lessor period would be disincentive to industry considering development and investment in the Caribbean Basin.

In conclusion, we support the Committee's approval of the Act coupled with recommended liberalization of the Rules of Origin with a view to qualifying research intensive products for free trade. The opportunities for free trade should extend to products from all business segments to encourage the establishment of a broadbase economy. With revised Rules of Origin, Syntex believes that the Act will provide an impetus for industry to invest in the Caribbean Basin.

Respectfully submitted,

LAWRENCE A. KIRKHAM,
Manager, Corporate Customs.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

While the Administration is to be commended for its concern with the economic well-being, political stability and national security of the countries of the Caribbean basin, at least the trade-policy segments of HR 2769 (the Caribbean Basin Economic Recovery Act) do not measure-up to the kind of response the Caribbean crisis ought to elicit from a nation whose economic and security stakes in the Caribbean area are so formidable.

The President has called the Caribbean crisis "a crisis of unprecedented proportions." He has said that "economic disaster" threatens even the area's most established democracies. The United States, he declares, is prepared "to act boldly" in

responding to this emergency; the chairman of the Senate Committee on Finance, in his statement introducing the bill, calls the CBI "an opportunity for bold leadership." The opportunity is there; the leadership is not bold enough.

CBI SCOPE TOO LIMITED

The proposal of duty-free, unrestricted access to the U.S. market for 12 years has a surface image of impressive help for the region's earning power. However, a limited period of duty-free access—followed by restoration of the suspended tariffs at the end of that period, which itself could be shortened by U.S. import restrictions if the duty-free status is a substantial stimulant to Caribbean exports to the United States—is not an adequate incentive to the kind of industrial investment the region needs. Nor do the product exemptions at the very outset of the proposed policy do much for the CBI's image.

The administration's original proposal included exceptions on textiles and apparel subject to trade-restrictive agreements, sugar, and products covered by U.S. import-relief actions. A significant assortment of additional exceptions, added by the House Committee on Ways and Means and passed by the House in 1982, are now incorporated in HR 2769. These additional exemptions are "footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel not designated (as duty-free under the Generalized System of Preferences)," tune, and petroleum or any product derived from petroleum. On the one hand, the offer of unilateral free trade is diminished by many product exceptions and no policy to remove these exceptions at the earliest possible time. On the other hand, the duty-free status intended for eligible products constitutes discriminatory treatment for countries of the Caribbean basin as against other sectors of the Third World, necessitating a waiver under the rules of the General Agreement on Tariffs and Trade and posing problems for U.S. relations with poor countries outside the Caribbean area. The United States should be developing a free-trade strategy with respect to all underdeveloped countries, many of which outside the Caribbean area are threatened with crises comparable with those in the Caribbean basin and merit a response no less bold. There is no such strategy.

In recognition of the problems of weaker U.S. industries that may have great difficulty copying with duty-free access under the CBI (or under the broader Third World strategy I prefer), the free-trade timetable I advocate could be slowed for some products in order to provide adjustment time for weak industries requiring special assistance. But no product should be permanently exempt. And free-trade status should be permanent, subject to temporary suspension, under strict standards, for legitimate, unforeseen contingencies. Differentials in the free-trade timetable would not undermine the credibility of the U.S. initiative. On the contrary, announced determination to remove import impediments on all products with deliberate speed would contribute to the credibility of a dramatic U.S. commitment of assistance to those countries. Enlarging the scope of the CBI's trade provisions along the lines I propose would make the Caribbean initiative a valuable proving ground for planning the comprehensive free-trade strategy I propose concerning all goods from all underdeveloped countries. The domestic-policy preparedness for this kind of CBI trade policy would become the prototype for the broader adjustment strategy that should be high on our national agenda.

U.S. "INDUSTRIAL POLICY" INADEQUATE

One-way free trade of the scope I am proposing, either for the CBI or broader Third World coverage, should not only be conditional on reasonable concessions by the beneficiary countries concerning labor standards and human rights as well as fair treatment of American goods, services and capital; it should also, both for economic soundness and political acceptability in the United States, be backstopped by a redevelopment strategy that addresses the real problems and needs of vulnerable U.S. industries, workers and communities through balanced recourse to the widest range of appropriate measures that advance the total national interest including the enlightened self-interest of these sectors of our economy. A commitment to full employment is an essential ingredient of the national adjustment strategy that should be high in our priorities. A properly designed adjustment strategy should reject simplistic recourse to import restruction (the product exceptions in the CBI bill exemplify simplistic recourse to import restriction). Coherent industry-redevelopment policies in weak U.S. industries would accelerate removal of any import restraints found to be essential for effective transition to economic viability for the affected sectors of our economy.

The President has said: "Every protection available to U.S. industry and labor against disruptive imports will remain." The protection now available under the import-relief provisions of the Trade Act is import restriction for an entire industry that has been seriously injured by imports or is threatened with such injury, and adjustment assistance for firms, workers and communities suffering such hardship. Not only have adjustment assistance appropriations been cut at Administration request; there is no assurance of suitable job relocation for workers who have been retrained for other employment. Import restriction itself, as currently structured, has serious shortcomings as an instrument of government assistance. Firms that may not need help secure windfall gains, while firms that do need help may not receive the kind of help they need, and may find competition from the stronger members of the industry more severe behind import controls that affect them all. The law does not require a coherent redevelopment strategy as the framework for whatever aid is given to an industry that merits assistance. The trade legislation should be reformed to correct this shortcoming. No such reform is in the offing.

Even if an industry can make a good case for government help under the current escape clause, and the International Trade Commission recommends import restriction (the Secretary of Agriculture in the case of agricultural products, as HR 2769 provides), there is a real possibility that the President may, in some cases, reject import restraint for foreign-policy reasons related to the effectiveness and credibility of the Caribbean basin program. What if adjustment assistance to individual firms, workers and communities isn't adequate as an alternative? Is the government prepared for new initiatives in domestic adjustment? In addition to stating that every protection available to U.S. industry and labor against disruptive imports will remain, the President should have pledged government consultation with vulnerable U.S. industries, workers and communities on ways government may help forestall possible injury without suspending free access for the products in question. Alternatives to import restriction where serious injury has occurred or is threatened would also be explored. Reassessment of statutes and regulations materially affecting these industries, to identify and correct any inequities, is one course of action deserving attention in this regard.

Such assurances of government interest in the problems and needs of our weaker industries, and of government determination to help find solutions consistent with the total national interest, would help make the CBI policy more credible for both the Caribbean countries and for U.S. interests that may fear the policy's effects on certain sectors of our economy. The Administration has not established this kind of position.

In short, the administration and Congress should be seeking ways to keep the foreign-policy imperatives of the CBI from denying appropriate assistance to seriously injured U.S. industries, and, on the other hand, ways to keep the problems of weaker U.S. industries from undermining the CBI and the credibility of U.S. concern for the economic development and national security of the Caribbean countries. The CBI as now formulated reveals serious shortcomings in this respect.

The administration has also revealed little sensitivity to the possibility that imports of various products competing with U.S. production may, in significant measure, be re-programmed (with certain changes in processing) for shipment from non-Caribbean countries via Caribbean countries to acquire enough Caribbean "value added" to qualify for duty-free entry into the United States. The current CBI bill has been improved in this regard, raising the Caribbean "value added" minimum from the original 25 percent of the appraised value of the item at the time of entry into the United States to 35 percent. That is, the sum of (a) the cost or value of the materials produced in one or more beneficiary countries plus (b) the direct costs of processing operations performed in such country or countries, must be not less than 35 percent of U.S. import value. The cost or value of component materials produced in the United States (excluding Puerto Rico) may not exceed 15 percent of the appraised value on entry into the United States. If the 35 percent minimum is suitable at all, it is suitable for only a short term, after which it should be raised significantly. Even as an initial minimum, it seems too low in the absence of the U.S. domestic-policy backstop I have advocated.

The administration's claim that fear of disruptive imports is not justified (arguing that imports of Caribbean products eligible for duty-free status are only a small fraction of total U.S. imports, even of total imports in the respective categories) neglects the possibly adverse impact on some of our weaker industries. It neglects as well the political pressures which have already added significant product exemptions to the CBI bill and could generate additional exceptions.

SUMMARY

While the administration's concern with the economic and security problems of the Caribbean region is most commendable, these countries, and possible U.S. investors, have cause for apprehension over how much they will really benefit from the CBI's trade measures in the face of notable product exemptions and the possibility that success in capitalizing on the duty-free status allowed may lead to U.S. import restrictions to protect U.S. industries that do not effectively cope with this import expansion. Some U.S. industries, workers and communities, on the other hand, have cause for apprehension over the extent of their government's interest in the domestic dislocation that may result from these free-trade measures compared with the government's security concern with the Caribbean region. Will some of these industries, workers and communities be sacrificed on the altar of U.S. foreign-policy imperatives in an area so near our shores and whose security is so important to our own? If import restraint is not a desirable remedy, what is and is the government prepared for it? The rest of the Third World, for its part, has cause for concern over the extent of U.S. interest in the well-being and security of those countries compared with the countries of the Caribbean basin.

The CBI strategy needs to be upgraded (a) to cover all poor countries, (b) to involve all the industrialized countries (thus, among other purposes, diversifying the export-market impact of expanding Caribbean and total Third World exports through programming free access for Third World goods to all these advanced economies), and (c) to ensure the ability of the American economy—indeed every state in the Union—to adjust effectively to a free-trade initiative. Although the CBI initiative is clearly more politically palatable in the United States than an overall free-trade strategy affecting all underdeveloped countries, this more limited project will be truncated by substantial product exceptions and may be weakened even more by withdrawals of duty-free status (before the prescribed free-trade period has expired) in response to possible demands for government help from industries that may be adversely affected by duty-free expansion of imports from the Caribbean area. U.S. foreign-policy, national-security and export-expansion interests would suffer.

At least the trade component of the CBI should be returned to the Administration drawing board for substantial redesign even as confined to the Caribbean Basin. A development program dealing with transportation, training and much more should be added to round out a balanced program of economic-development assistance.

STATEMENT OF DONALD C. NELTHROPP, PRESIDENT, VIRGIN ISLANDS RUM INDUSTRIES, LTD.

My name is Donald C. Nelthropp. I am the president of Virgin Islands Rum Industries, Ltd., known by its acronym "VIRIL." My address is Box 218, Frederiksted, St. Croix, U.S. Virgin Islands 00840. VIRIL's telephone number is (809) 772-0280.

This statement is submitted on behalf of an industry which contributes significantly to the economic well-being of the Virgin Islands of the United States. As introduced in the House in April, legislation implementing the Caribbean Basin Initiative contains a regulatory relief provision, section 104(g), that is essential if Virgin Islands rum procedures are to compete on an equitable basis with foreign Caribbean rum producers. Section 104(g) is identical to a provision adopted by this committee, and the full House, last year. Additional steps are also necessary, however, to provide basic safeguards for the Virgin Islands rum industry while at the same time allowing increased duty-free access to the United States rum market for rum distillers located in CBI beneficiary countries.

VIRIL is by far the largest manufacturer of rum in the Virgin Islands. A wholly island of St. Croix. VIRIL manufactures over 90 percent of the Virgin Islands rum sold in the United States. Historically, rum and tourism have been the two most important sources of imcome for the Virgin Islands economy. The rum industry provides approximately 3 percent of the total manufacturing employment in the vides approximately 3 percent of the total manufacturiing emplopyment in the Virgin Islands. Most importantly, after collection costs are subtracted, excise taxes collected in the United States on Virgin Islands rum are rebated to the Virgin Islands government. These rebates now represent over 15 percent of the annual gross revenues of the Virgin Islands government. This excise tax rebate mechanism makes VIRIL's operation the single largest source of revenue for the Virgin Islands.

In order fully to appreciate the impact which the CRI will have on VIRIL and on the Virgin Islands, it is important to understand the market in which Virgin Islands rum is sold. More than 80 percent of the product which VIRIL ships to the

U.S. is transported unaged and in bulk. Most of this rum is then marketed by several dozen purchasers—many of which are small corporations—that bottle and sell rum under private, unadvertised labels at a price significantly below that of aged, advertised brand name rums. VIRIL's produce is thus extremely price-sensitive in that purchasers of unaged, bulk rum will readily turn to an alternate source of rum should that source have rum available at lower prices. In sum, VIRIL's bulk rum is in the nature of a commodity to its purchasers. This situation is in marked contrast to that involving Puerto Rican rum, which is aged and primarily marketed under well-known brand names. Thus, Puerto Rican rums are less engaged in price competition. Since Virgin Islands rum does not enjoy the brand loyalty of such Puerto Rican rums as Bacardi and Ronrico, VIRIL would be particularly affected by the increasing levels of unaged, bulk rum imports from foreign Caribbean nations which H.R. 2769, as presently constituted, would attract to the U.S. market.

At the present time, the tariff levied on foreign rum entering the United States—$1.57 per proof gallon in 1983—effectively protects VIRIL's share of the American rum market. Elimination of the rum tariff, however, would lead U.S. purchasers of Virgin Islands rum to turn to alternative rum suppliers in the non-U.S. Caribbean. Since many other Caribbean countries already have lower wage rates, have molasss locally available,[1] and do not impose the substantial environmental and other regulatory burdens now applicable in the Virgin Islands, the competitive position of rum producers in the Virgin Islands would clearly be adversely affected. VIRIL wants to see the economy of the Virgin Islands, and its own place in that economy, continue to grow and prosper. However, without a U.S. tariff on foreign rum, and in light of the present competitive disadvantages just listed, expanding or even maintaining a rum distillery there is brought into serious question.

Furthermore, there is no question that Caribbean rum producers, some of them the very same companies with rum distilleries or rum-producing affiliates in Puerto Rico,[2] are ready to take immediate advantage of tariff elimination. In recent years, over 85 percent of the foreign rums entering U.S. trade channels have come from Caribbean Basin countries, 65 to 75 percent of the total from one country alone. Most of this Caribbean Basin rum is shipped to the United States in bulk. Moreover, publicly available statistics indicate that during the years 1979-82, more than 6.6 million proof gallons of Jamaican rum arrived in the United States. During this same time period, the tariff was paid on only about 2.4 million proof gallons. VIRIL can only conclude, therefore, that about 4.2 million proof gallons of Jamaican rum, upon which no tariff has been paid, is presently in storage in bonded warehouses in the United States. This is more rum than VIRGIL ships to the United States in an entire year. In testimony before this Committee today, representatives of the Administration admitted that, if H.R. 2769 is enacted as presently proposed, foreign rums stored in bonded warehouses in the United States could enter U.S. trade channels duty-free. Thus, all some foreign producers will have to do to take advantage of duty-free treatment is open a U.S. warehouse door.

To compound the problem, VIRIL has been effectively precluded from developing a commercially significant export market for its rum outside the United States because of tariff and nontariff barriers in other world rum markets. The EEC, for example, allows rum from many Caribbean nations, including nearly all of the proposed CBI beneficiary countries, to be imported duty-free, subject to certain quota levels. Since the Virgin Islands is a U.S. possession, however, rum from the Virgin Islands is not afforded such duty-free treatment. With the market for unaged bulk rum so sensitive to price, the Virgin Islands is thus effectively foreclosed from competing in European markets. Similarly, while a substantial tariff keeps Virgin Is-

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[1] The cost of VIRIL's molasses supplies for distilling rum for export to the mainland United States is presently subsidized by the Virgin Islands government under 33 V.I. Code 3036. When this subsidy is taken into account, the price VIRIL ultimately pays for its molasses is below the world market price. There is reason to believe, however, that similar subsidy programs exist on other Caribbean islands. In Trinidad and Tobago, the government owns the local molasses supplies and can provide molasses to rum distillers at a price it determines. Molasses prices in the Dominican Republic are also controlled by the government and are set below the world market price, and there is evidence that an export subsidy has been put in place there to encourage rum shipments to the United States. In Jamaica, three rum distilleries are owned, at least in part, by the government-owned Jamaica National Sugar Company (which, of course, also operates the sugar mills from which the molasses comes).

[2] Seagram, which owns Puerto Rico Distillers, Inc., also owns part of the Myers Rum distillery in Jamaica. Seagram has U.S. distribution rights for that distillery and two others in Jamaica. Bacardi has distilleries in Trinidad and Tobago and the Bahamas. Even the small Brugal distillery on St. Croix, which now produces for the U.S. market, might be replaced by production from Brugal's main distillery in the Dominican Republic.

lands rum out of Canada, the Commonwealth countries of the Caribbean enjoy duty-free access to the Canadian rum market.[3]

The lifting of U.S. tariffs on all shipments of Caribbean bulk rum would have serious competitive consequences. While most foreign Caribbean rum producers would be able to export rum duty-free to European, Canadian, and United States markets, VIRIL would remain effectively shut out of all but the last and with greatly reduced capacity to compete effectively even at home. Caribbean bulk rum manufactured at lower cost on neighboring islands would replace an increasing amount of Virgin Islands rum in the United States, and Virgin Islands rum would continue to be subject to prohibitive tariffs levied by the EEC countries and Canada.

It is important to recognize that granting unlimited duty-free treatment to products of foreign Caribbean nations simply makes no sense when it comes to bulk rum. Compare the overall benefit that this policy will produce on other Caribbean islands to the harm visited on the workers and people of the Virgin Islands and the Virgin Islands government. It is not likely that new rum distilleries will be built or new workers employed in Caribbean Basin countries. More probably is the scenario in which existing distilleries in the Caribbean Basin (some of which are owned by multinational corporations headquartered outside the Caribbean or by local governments or government-controlled entities [4]), would simply expand their production by operating more days per year. Therefore, the extent to which additional rum operations will spur the economies of Caribbean Basin countries is limited at best. This benefit, when weighed against the damage which will be caused in the Virgin Islands by the elimination of duties on foreign Caribbean bulk rum, demonstrates the lack of wisdom behind that proposal. It is simply illogical to jeopardize a vital sector of the economy of the Virgin Islands in return for such a small potential benefit among CBI beneficiary countries.

Let me address just briefly the supposed safeguard mechanisms that some contend will protect VIRIL in the event increased imports of foreign Caribbean rum threaten VIRIL's survival.[5] One of these supposed safeguards is contained in section 103(e) of H.R. 2769 and involves resort to the International Trade Commission. Administration representatives admited today that it might be very difficult for VIRIL to obtain relief under this section if only VIRIL is being harmed by imports (and Puerto Rican producers of name-brand rums are not seriously affected), since the ITC could well determine that serious injury to the Virgin Islands rum industry does not suffice to show serious injury to the American rum industry in general. Even if it is assumed that this "standing" problem could be resolved in VIRIL's favor, the mechanism now embodied in sections 201 and 203 of the Trade Act of 1974 has proven a cumbersome and unwieldy device indeed. When invoked, it demands a very heavy burden of proof on the part of the domestic petitioner and, even if the ITC finds in the petitioner's behalf, relief is still in the President's discretion. Accordingly, the mechanism proposed in the bill before the Committee is far too time-consuming, expensive, and uncertain a route to relief to assuage our concerns. By the time we could present our case to the ITC and persuade the President that relief should be granted (even assuming the latter did not conflict with Executive Branch foreign policy concerns—regarding Jamaica, for example), our markets could be irreversably lost.

The second supposed safeguard is contained in Section 104(c) of H.R. 2769. This curious provision would provide relief only in the extremely unlikely event that Congress were to alter the current excise tax structure so that the excise tax on foreign rum were less than the excise tax on U.S. rum. Section 104(c) thus is a safe-

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[3] During his testimony before the Committee today, the representative of the West Indies Rum and Spirits Producers' Association asserted that there was no longer any Canadian tariff on rum produced in U.S. possessions. Subsequent to the hearing, a representative of Canada Customs in Ottawa told VIRIL that the Canadian tariff on U.S. rum (C$1.50 per Canadian proof gallon) remains in place.

[4] E.g., Myers rum of Jamaica is owned by Seagram, a Canadian corporation; Pott rum of St. Maarten is owned by a German corporation; Mount Gay rum of Barbados is controlled by an American multinational. The Government of Trinidad and Tobago owns the distillery that produces "Caroni" rum, and in Jamaica three distilleries are indirectly owned or controlled by the Government.

[5] One minimal safeguard is not included in H.R. 2769: the bill should contain some mechanism to ensure that beneficiary country status is denied to any country that discriminates against the Virgin Islands in the supply of molasses. VIRIL must import all its molasses and there is some risk that VIRIL's molasses supplies may be threatened in the event foreign rum producers (who are often affiliated with the sugar mills which produce the molasses seek to enlarge their share of the U.S. market.

guard against a most improbable contingency, and the provision holds no promise of relief in the event VIRIL's share of the rum market is lost to foreign producers.

Thus far, I have told you why we think immediate removal of the tariff on foreign Caribbean rum is not a sound policy. I want to make crystal clear VIRIL's preference that the existing tariff on rum be maintained. But if the Congress, in its wisdom, determines that some tariff relief for foreign Caribbean rums is necessary and appropriate, there are ways to structure such relief which would be less devastating to VIRIL than the sweeping proposal introduced in April.

One such relief mechanism is contained in H.R. 3108, the Eastern Caribbean Regional Development Fund proposal that has been proposed by the governments of Puerto Rico and the Virgin Islands. This proposal, which VIRIL strongly supports, would grant unlimited duty-free treatment to bottled rum from foreign Caribbean nations. Because bottling operations are the most labor-intensive aspect of rum manufacturing, encouraging rum producers to expand local bottling operations would create new jobs. The existing tariff on bulk rum would be retained and tariff revenues, along with excise taxes collected on all rum imported into the United States from beneficiary countries, would be devoted (up to certain predetermined ceilings) to the Fund, to be admimistered by the Agency for International Development. Disbursements from the Fund would be made to the governments of foreign Caribbean islands to finance public infrastructure projects, with a specified portion of the Fund earmarked for the use of rum-producing nations. The Fund proposal would cost the U.S. Treasury less than the blanket duty-free treatment proposal now in H.R. 2769 and would further the goals of the CBI without jeopardizing the future economic and fiscal health of Puerto Rico and the Virgin Islands.

While VIRIL believes the Fund proposal is very worthwhile, VIRIL is also willing to support any other compromise that would reasonably protect VIRIL's competitive position while allowing increased duty-free access to the U.S. rum market by foreign producers. One such compromise would involve the institution of a tariff-rate quota, which would allow foreign producers to bring in pre-determined quantities of rum duty-free, while additional shipments would continue to be subject to the tariff. Another option would be to remove the tariff on all bottled rum and all but the least expensive bulk rum. This latter approach would be consistent with statements made on behalf of foreign rum producers to the effect that they do not intend to, and indeed simply cannot, compete in the lowest-price bulk rum market in the United States. If a mechanism can be devised by which VIRIL can be assured that H.R. 2769 will not enhance the ability of foreign producers to enter the price-sensitive segment of the bulk rum market in which VIRIL competes, VIRIL will consider such a compromise favorably.

Before I finish my discussion of the tariff aspects of H.R. 2769, I must note that the testimony presented to the Committee today by the representative of the West Indies Rum and Spirits Producers' Association contains a number of inaccurate statements and misleading assertions. Attached at the end of my statement is a compilation of the most serious of these misstatements and assertions, along with a point-by-point rebuttal. I bring these facts to the committee's attention so that the record can be set straight.

Apart from its concerns with respect to the continued existence of a tariff on foreign Caribbean rum, VIRIL needs regulatory relief under the Clean Water Act if it is to stand any chance of competing successfully with bulk rum producers elsewhere in the Caribbean. The biodegradable effluent produced by VIRIL's run distilling operations is currently discharged through an outfall into the oxygen-rich waters of the Caribbean Sea off the south shore of St. Croix. Despite a general consensus by local environmental authorities and island residents that the quality of these waters is not being harmed by VIRIL's discharges, the Environmental Protection Agency has insisted on the construction of a sophisticated waste treatment facility at a cost of $4 million or more. While doing nothing to enhance water quality, this facility would cost at least $1 million per year to operate and would itself contribute to air pollution and possibly even create a solid waste disposal problem.

The cost of constructing and operating such a treatment facility would be crippling to VIRIL, while the facility would produce no real environmental benefit. In fact, the cost of simply building the facility required by EPA would exceed the current book value of VIRIL's fixed assets. This is far and away VIRIL's greatest regulatory burden, and it is one our foreign competitors do not face, though they discharge their distillery wastes into the very same body of water. Even without a tariff reduction, this regulatory requirement, pointless as far as water quality interests are concerned, severely jeopardizes VIRIL's capacity to compete successfully in a price-sensitive market. Certainly the combination of the elimination of the rum

tariff and the imposition of EPA's regulatory requirements would prevent VIRIL from competing on an equal footing with other rum producers.

Durings its consideration of the Caribbean Basin Initiative last year, the House of Representatives adopted an amendment addressing the environmental issue. The amendment, which now appears in section 104(g) of H.R. 2769, essentially places regulation of rum effluent discharges in the hands of the Virgin Islands government. Discharges of rum effluent occurring at least 1500 feet offshore would not be subject to certain technology-forcing provisions of the Federal Water Pollution Control Act so long as the Governor of the Virgin Islands determines that the discharges will not damage water quality, endanger human health or marine life, or unreasonably limit water uses. This amendment allows for consideration of observable environmental conditions in determining appropriate treatment levels rather than the application of an abstract environmental concept which would require the construction of unnecessary treatment facilities and thereby markedly increase production costs without producing any additional income.

The environmental amendment adopted by the House last year recognizes the unique position of the Virgin Islands as a United States possession where environmental factors are different from those in the mainland United States. It allows the Virgin Islands government to consider environmental and economic conditions which the drafters of the Clean Water Act did not contemplate. The Virgin Islands government has a vested interest in maintaining a clean and healthy environment because of the Islands' flourishing tourist industry. Placing regulation of the Virgin Islands rum industry in the hands of the Virgin Islanders, the only people whose environment the discharge could conceivably affect, is a sensible approach to the environmental issue, as it ensures that treatment costs and environmental benefit will be appropriately balanced. All we are asking, and all section 104(g) would accomplish, and I want to stress this, is the chance to compete with foreign producers on more equal terms in the marketplace, free of undue and unnecessary regulatory burdens which such foreign producers do not bear.

Through the adoption of the Eastern Caribbean Regional Development Fund proposal embodied in H.R. 3108 (or any other mechanism that addresses VIRIL's tariff concerns) and the enactment of section 104(g), the means exist by which the U.S. rum market can be substantially opened to foreign Caribbean rum producers without irreparably compromising VIRIL's competitive position. But enactment of the Fund proposal (o any alternative) without environmental regulatory relief, or v. e versa, will fall far short of the mark, probably fatally short.

VIRIL recognizes the importance of an economically prosperous Caribbean. We have worked together with the residents of the United States Virgin Islands—the Americans of the Caribbean—to help bring prosperity to the area. We are prepared to make more than our share of the sacrifices necessary to spread prosperity to other neighboring countries throughout the Caribbean Basin. All we ask is that the sacrifices be limited to what is reasonable and truly likely to help those countries rather than unnecessarily burdensome and harsh in their consequences. VIRIL is prepared to compete with foreign producers in the U.S. and other markets, and we are confident that, given an equal chance, VIRIL can do so successfully.

We also believe, however, that, unless section 104(g) of H.R. 2769 is retained and some modification is made that prevents a flood of duty-free foreign Caribbean bulk rum, the CBI will deliver to the people of the Region a most unfortunate message about U.S. treatment of those who rely on this country's policies for their economic well-being. Such a short-sighted approach ill-serves us all. What the Caribbean needs, and the situation with rum is in some respects a microcosm of this, is not a dramatic sweep of the hand, but a carefully thought out trade policy which will enable our neighbors to enjoy a fair share of U.S. markets and, at the same time, retain existing trade opportunities in the U.S. market for the business community established in the Virgin Islands.

SUMMARY OF PRINCIPAL POINTS OF STATEMENT

Legislation introduced in the House of Representatives in April implementing the Caribbean Basin Initiative contains one provision, section 104(g), essential to the future of the Virgin Islands rum industry, a vital sector of the Virgin Islands economy. The major producer of Virgin Islands rum, Virgin Islands Rum Industries, Ltd. [VIRIL], would be placed at a severe competitive disadvantage if it is forced to comply with costly and unjustified environmental regulatory requirements. VIRIL urges this Committee to support enactment of section 104(g) of H.R. 2769, which places the regulation of the Virgin Islands rum industry's water-borne effluents in the hands of Virgin Islanders.

VIRIL's product is extremely price-sensitive. Purchasers of VIRIL's unaged, bulk rum will readily turn to an alternate source of lower-priced rum. Since production costs in foreign Caribbean islands are lower than in the Virgin Islands, removal of the present U.S. tariff on foreign Caribbean rum would clearly have an adverse effect on VIRIL. VIRIL urges the Committee to adopt some tariff mechanism that would protect VIRIL's competitive position while allowing increased duty-free access to the U.S. rum market by foreign producers. One such option is the retention of the tariff on bulk rum combined with the establishment of an Eastern Caribbean Regional Development Fund, as provided for in H.R. 3108. Another option would be to eliminate the tariff on all bottled rum and all but the least expensive bulk rum.

RESPONSES TO ASSERTIONS MADE BY THE WEST INDIES RUM AND SPIRITS PRODUCERS' ASSOCIATION JUNE 9, 1983

A representative of the West Indies Rum and Spirits Producers Association [WIRSPA] appeared before the committee today to speak in favor of unlimited duty-free access to the U.S. market for foreign Caribbean rum producers. In the course of his testimony, the WIRSPA representative made a number of statements that are not in accord with the facts. The WIRSPA representative also submitted for the record a copy of a paper by Dr. James Sood entitled "The Potential Impact on Puerto Rico and the Virgin Islands Due to the Removal of the U.S. Import Tariff on Rum." This paper contains certain conclusions that are simply erroneous. Other conclusions, factually accurate as far as they go, are not relevant to the propositions the paper supposedly supports. The most egregious examples follow:

1. ASSERTION

"[T]he U.S. rum market will continue to grow at an 11 percent annual rate through 1991. If Caribbean rums are allowed to compete for a portion of this rapidly-expanding market, they will be able to take up some of the increasing 'growth area', and not in any way threaten present Virgin Islands or Puerto Rican exports." [WIRSPA Statement]

FACTS

The 11 percent growth figure is derived from the 1982 edition of The Liquor Handbook. The editors of the Handbook note that their projections "are based on a straight-line extension of the 1976–81 statistical trend and must not be considered predictions." The 11 percent statistic is now out of date, since it includes the rum market "boom years" of the late 1970's during which the spectacular growth in Puerto Rican rum shipments took place. According to data from the National Association of Beverage Importers, between 1980–1982 rum shipments from Puerto Rico and the Virgin Islands were both down 10 percent. This drop in shipments (imports of foreign rum also dropped during this period) is not indicative of the type of strong market demand in which foreign producers could increase their sales without hurting domestic manufacturers. Indeed, it is logical to conclude that one way for foreign producers to increase their sales in the U.S. during a time of market stagnation is to focus thier efforts on the price-sensitive end of the market, where price (rather than brand recognition, distribution and advertising) is the determining factor. The small share of the U.S. rum market now held by Virgin Islands rum producers would be the target of these efforts.

2. ASSERTIONS

(a) "The production costs of Puerto Rico's branded rums . . . and of the Virgin Islands' largely unbranded rums are both far lower than any of the rums imported from Barbados, Dominican Republic, Guyana, Haiti, Jamaica, or Trinidad." [Sood Report]

(b) "The unaged rum from the Virgin Islands and the branded rums from the other Caribbean countries compete in two different market segments." [Sood Report]

FACTS

It is true that in recent years most of the rum exported to the United States by foreign Caribbean producers has been sold at prices above the prices charged for most Virgin Islands rum. This, however, does not support the proposition that pro-

duction costs [1] in other Caribbean islands are higher than in the Virgin Islands or that, with removal of the existing tariff, foreign producers would continue to produce brand-name rum to the exclusion of unaged, bulk rum. According to material supplied to the Ways and Means Committee by the National Association of Beverage Importers (an organization that has consistently opposed the Virgin Islands in the CBI debate), in 1982 the average value of Virgin Islands bulk rum shipped to the United States was $1.51 per proof gallon while the average value of rum exported to the United States from the Dominican Republic was only $1.382 per proof gallon. It is therefore indisputable that foreign Caribbean producers have the demonstrated capacity to undercut the prices being charged for Virgin Islands rum, and will have a strong incentive to do so in order to materially increase their shipments if the tariff is removed. The fact that most foreign Caribbean rum and most Virgin Islands rum do not now compete in the same market segment has no bearing on the ability of foreign producers to alter their marketing strategy if the U.S. tariff on low-priced bulk rum is removed.

3. ASSERTION

"[T]he most optimistic estimate of the increase in imports due to the tariff elimination would by [sic] 10 percent." [Sood Report]

FACTS

The 10-percent figure is not supported by Dr. Sood's report and must simply be regarded as one man's guess about a market that historicaly has been very difficult to forecast. However, one should note that, in 1982, WIRSPA rejected a compromise proposal that would have allowed foreign Caribbean producers to ship to the United States duty-free in 1983 150 percent of the amount of rum that they shipped to the United States in 1980 or 1981 (years during which foreign rum shipments were at historical highs). For years after 1983, this compromise proposal would have allowed duty-free treatment for foreign Caribbean rum to increase by an additional 20 percent annually. In the last year of the operation of that tariff-rate quota, foreign Caribbean rum producers would have been able to ship to the U.S. duty-free over 11 million proof gallons of bulk rum, an amount that represents more that a third of the present U.S. rum market. It WIRSPA supports its own expert's estimate that tariff elimination would at most lead to a 10 percent increase in rum imports, why did WIRSPA reject a proposal that would have provided duty-free treatment for shipments of foreign Caribbean rum far in excess of that amount?

4. ASSERTIONS

(a) Rebated federal excise taxes are used in part "to help defray the promotions costs of the marketing of the rums and, in the case of the Virgin Islands, to help subsidize the purchase of molasses . . . ." [WIRSPA Statement]

(b) "Under H.R. 2769 Puerto Rico and the Virgin Islands would, additionally, receive the excise taxes paid on Caribbean rum imports . . . thus giving them even greater subsidies over much more expensive Caribbean rums." [WIRSPA Statement]

(c) "[T]he Virgin Islands further subsidizes Shenley [sic], by forgiving 90 percent of its federal tax obligation and using the remaining 10 percent to promote rum sales." [WIRSPA Statement]

(d) "There are no such subsidies for the Caribbean producers. . . ." [WIRSPA Statement]

FACTS

The Virgin Islands mollasses subsidy is a matter of public record—it is found in the Virgin Islands Code and was the subject of testimony before the Trade Subcommittee as early as March 1982. The molasses subsidy is most significant when molasses prices are high, as they were in 1979-1980. Prices have declined significantly since that time (by more than half). As molasses prices fall the molasses subsidy becomes less and less of an advantage and the higher labor and regulatory costs in the Virgin Islands become more and more of a disadvantage. It must be stressed that the vast majority of federal excise taxes rebated to the Virgin Islands—approxi-

[1] Among other errors, the Sood report simplisticly assumes a direct relationship between prices and production cost. Actually, foreign producers may be boosting their prices to avoid head-to-head competition with market-dominant Bacardi and to appeal to the "premium" market segment. The tariff has heretofore prevented their entry into the low-priced segment of the market.

mately 95 percent—go to support capital improvements (such as roads and schools) and finance other expenses that the territorial government could not possibly otherwise afford, except with additional appropriations from the U.S. Treasury.

In fiscal year 1983, the Virgin Islands government expects a budget deficit of over $24 million. In the event that a portion of the Federal excise taxes collected on foreign Caribbean rum is rebated to the Virgin Islands, these funds will be used to ameliorate the severe financial straits in which the territorial government now finds itself and will not be available to provide further assistance to the Virgin Islands rum industry.

In many potential beneficiary countries (e.g., Jamaica, Trinidad and Tobago, the Dominican Republic), the Governments own or operate the sugar mills, the only local source of molasses. If they are, or were to begin, subsidizing local distillers' molasses prices, how would the United States (and more specifically the ITC) ever find out about it? VIRIL has provided documentary evidence to the Committee's staff that the Dominican Republic, for one, already sets the price of molasses to local rum producers at a level well below the world market price (i.e. the price F.O.B. New Orleans).

Apart from the molasses subsidy, the Virgin Islands government has granted certain benefits to the major producer of Virgin Islands rum, Virgin Islands Rum Industries, Ltd. [VIRIL], in return for certain investments made by VIRIL in its distillery. Again, this is a program created by statute and the benefits are a matter of public record. VIRIL receives a rebate of 75 percent (not 90 percent as WIRSPA alleged) of the income tax imposed by the Virgin Islands on VIRIL's profits. However, all the rebated taxes, plus nearly half a million dollars of Schenley's own funds each year, are required, as a condition of the program, to be used in the promotion of VIRIL's brand name products in the mainland United States. The object of this program is to reduce VIRIL's dependence on the highly vulnerable, price-sensitive, private label, bulk segment of the rum market. In addition, to retain these benefits, VIRIL is required to make substantial new investments in its capital plant. (Contrary to WIRSPA's assertions, the remaining portion of VIRIL's income taxes are not used to promote rum sales. Indeed, VIRIL is prohibited from receiving such promotional subsidies.) We note that WIRSPA has never produced copies of financial statements of foreign distillers (including those owned or controlled by foreign governments) to contradict the proposition that foreign producers benefit from similar, or even more generous, promotional programs or from direct or indirect subsidies.

5. ASSERTION

"The large producers (Seagram, Schenley, and Bacardi) dominate the channels of distribution to the extent that the small Caribbean producers cannot 'push' a serious increase on the control states, wholesalers and retailers." [Sood Report]

FACTS

Seagram has part ownership of a distillery in Jamaica and has U.S. distribution rights for other distilleries there; Bacardi has a distillery in the Bahamas. Plainly, these companies can use their alleged dominance of channels of distribution to distribute foreign CBI rum. Schenley clearly does not dominate the channels of distribution—VIRIL has only been able to market small amounts of its brand name rums.

6. ASSERTION

"The large producers are able to spend considerably larger sums of money on advertising, sales promotion, and personal selling than any of the small Caribbean producers and their importers." [Sood Report]

FACTS

The ability of a producer to spend money on advertising and promotion is irrelevant in the unaged bulk rum market. In this market price is paramount and promotional efforts are minimal and largely unnecessary. At any rate, foreign Caribbean rum producers (or their importers) could use moneys saved by the elimination of the tariff to expand their advertising in the United States. According to the Liquor Handbook, in 1981 more than $4 million was spent on magazine promotion for Myers rum, more than four times the amount spent for VIRIL's brand name products.

7. ASSERTION

"Bacardi has an extremely strong hold on the consumers in the market, as illustrated by its 75-percent share of the market.' [Sood Report]

FACTS

Bacardi's dominance of the American rum market is undeniable. This dominance is actually an incentive for foreign producers to make and market unaged bulk rum to sell in the low-price market segment in which Bacardi does not actively participate.

8. ASSERTION

The present tariff "only amounts to $.40 per bottle at the final retail level." The removal of the tariff "would reduce the price advantage of the private label of Virgin Islands rum from 90 to 81 percent." [Sood Report]

FACTS

Dr. Sood's calculation of price advantages is based on a comparison of prices of one brand name foreign Caribbean rum and one private label Virgin Islands rum in one state-controlled liquor store. No comparison is given of the relative prices of private label Virgin Islands rum and private label foreign Caribbean rum. There is no question that the current tariff is crucial in the marketing of unaged bulk rum, especialy when (as described above) some foreign Caribbean rum is already entering the United States at a pre-tariff value below the average value of Virgin Islands rum. Furthermore, if removal of the tariff has such a marginal effect on the price advantage maintained by domestic rums, why are foreign producers pressing so hard for the elimination of the tariff and why are these tariffs being characterized as "disproportionately high"?

9. ASSERTIONS

(a) Puerto Rico and the Virgin Islands would receive the rebate of all Federal excise taxes collected on foreign rum shipped to the United States, and "[i]f for any reason Puerto Rico and the Virgin Islands received less FET rebates than if the rum had been produced in their respective countries [sic], the President could proclaim a duty rate for imported rum or withdraw the duty free treatment of rum." [Sood Report]

(b) "Besides the payment of excise taxes on Caribbean rums to the treasuries of the two U.S. territories, sections 103(e) and 104(f) of the bill allow Virgin Islands and Puerto Rican industries to bring actions for import relief before the International Trade Commission under the Trade Act of 1974 for any injury caused by increased imports from the Caribbean." [WIRSPA Statement]

FACTS

Additional excise tax rebates to the virgin Islands Government do not ensure the future of the Virgin Islands rum industry. H.R. 2769 contains no mechanism by which the Virgin Islands would receive additional compensation in the event that tariff elimination results in a disproportionate impact on the Virgin Islands rum industry. Furthermore, the only way the Virgin Islands could receive less in excise tax rebates on foreign rum than if the rum had been produced in the Virgin Islands would be in the event that the federal excise tax on foreign rum were lower than the federal excise tax on domestic rum. This is an extremely unlikely possibility. In addition, any action by the President is subject to foreign policy considerations which may militate against the reimposition of the duty on foreign Caribbean rum.

While sections 103(e) and 104(f) of H.R. 2769 purport to enable distillers in the Virgin Islands to obtain relief from injury due to increased levels of imports, in reality such relief is highly problematic. First, as representatives of the Administration testified today, a Virgin Islands distiller might have considerable difficulty in getting the ITC even to consider its petition if other American rum producers are not affected by increased foreign rum imports. Second, in order to obtain relief serious injury must be caused substantially by increased imports. Other factors contributing to problems in the rum industry (e.g. slack demand, changes in demography) might cloud any causation determination. Third, before the tariff could be reimposed, there would have to be an additional causation determination tying the domestic industry's injury to the CBI, making the likelihood of relief even more

remote. Fourth, resort to the ITC is both expensive and time-consuming. The mechanism is so cumbersome that for a volatile, price-sensitive business, such as bulk unaged rum sales, it really constitutes no effective remedy at all. The industry could be destroyed long before any relief is granted. Fifth, ultimate relief is wholly discretionary with the President. Near-term foreign policy considerations (the same as those now driving the effort to enact the CBI) might lead a President to sacrifice the interests of a domestic industry seriously injured by foreign competition.

10. ASSERTION

"The demand for rum exports . . . is an important determinant of the economic viability of the fragile sugar industries in the rum-producing Caribbean countries." [WIRSPA Statement]

FACTS

Local production of foreign Caribbean rum will not help save the troubled Caribbean sugar industry. The sugar mills can, and currently do, sell their molasses to rum manufacturers in Puerto Rico and the Virgin Islands, earning hard currency in the process. Unlimited duty-free treatment for foreign Caribbean bulk rum creates an incentive for beneficiary countries to hoard their molasses, thus "starving out" Puerto Rican and Virgin Islands distillers, who depend upon foreign suppliers for most of their molasses needs.

11. ASSERTION

"All the distilleries [located in beneficiary countries] except one are locally owned or controlled." [WIRSPA Statement]

FACTS

Seagram owns the Myers Rum Company in Jamica. Foremost-McKesson, an American corporation, has a controlling interest in the distillery that produces Mount Gay rum. The Pott distillery on St. Maarten is owned by a West German multinational. Bacardi has a distillery in the Bahamas.

12. ASSERTION

"More Caribbean rum imports . . . will have the correlative effect of helping to create more American jobs." [WIRSPA Statement]

FACTS

It is illusory to believe that encouraging foreign rum production will create new U.S. jobs. It takes the same number of American workers to bottle, label and cap bulk rum, whether the rum is produced in Puerto Rico or the Virgin Islands or in Jamaica or Barbados. Likewise, the number of U.S. wooden barrels needed to age rum is not affected by whether the rum is distilled under the U.S. flag or not. (At any rate, rum is aged only in whiskey barrels, of which there are a surplus. Therefore, no significant U.S. labor is involved in providing barrels for aging rum.) Only one impact on U.S. jobs is clear—to the extent that foreign rum replaces domestic rum in the U.S. market, unemployment among American distillery workers in Puerto Rico and the Virgin Islands will increase.

13. ASSERTION

"Shipping bottled rum is, simply, very uneconomical." [WIRSPA Statement]

FACTS

The present tariff on foreign Caribbean rum is far greater (perhaps three of four times greater) than the higher freight charges associated with shipping rum in bottles instead of in bulk. This means that if duty-free treatment is granted to bottled rum, the extra cost of shipping in bottles will be more than offset by the elinination of the tariff. Elimination of the tariff on bottled rum, therefore, represents a significant improvement over the current situation for foreign Caribbean rum producers.

Nearly 20 percent of rum imports from potential beneficiary countries are already shipped in bottles. The percentage of imported rum arriving in bottled form has risen significantly since 1980. To suggest that shipping bottled rum is not profitable flies in the face of that and of the fact that more than a third of all rum shipments

from Puerto Rico currently enter the U.S. in bottled form (over 6 million proof gallons in 1982 alone). Since Puerto Rican rum enters the U.S. mainland duty-free whether bulk or bottled, the economic penalty, if any, of shipped rum in bottles cannot be very high.

14. ASSERTION

"Another bonus in [H.R. 2769] for the Virgin Islands is the exemption it receives in section 104(g) from the Federal Water Pollution Control Act effluent standards and requirements for the territory's rum distillery." [WIRSPA Statement]

FACTS

Section 104(g) is in no sense a "bonus" for the Virgin Islands. This section of the bill provides no advantage for Virgin Islands distillers over foreign distillers, since the regulatory requirements in question (which would force the construction of an environmentally unjustified treatment facility costing millions of dollars that would have a severe impact on profits in the industry) do not exist in beneficiary countries. Section 104(g) instead would allow Virgin Islands distillers to continue to discharge their biodegradable effluent into the oxygen-rich waters of the Caribbean Sea under certain conditions designed to protect the environment.

15. ASSERTION

There is only one rum distillery in the Virgin Islands. [Oral assertion by WIRSPA representative]

FACTS

There are two rum distilleries in the Virgin Islands. VIRIL's distillery is the largest, but another distillery is operated by Brugal & Co., Inc.

16. ASSERTION

VIRIL paid about 61.5 cents for its molasses when the world market price for molasses was around 30 cents. [Oral assertion by WIRSPA representative]

FACTS

WIRSPA's apparent surprise at this state of affairs reflects a lack of understanding of the market constraints in which VIRIL must operate. Foreign Caribbean rum producers purchase their molasses locally and pay the prevailing local market price (unless, of course, molasses is made available on even more favorable terms). VIRIL must pay the prevailing market price in the islands where it purchases molasses, then pay to have the molasses shipped to Puerto Rico. In Puerto Rico, the molasses is transferred to a barge small enough to use VIRIL's small port facility. Because VIRIL cannot buy molasses in large quantities and because of the substantial shipping costs involved, VIRIL will always pay well above the world market price for molasses. Through the operation of the molasses subsidy discussed above, VIRIL recovers a portion of its molasses costs for molasses used to produce rum ultimately shipped to the mainland United States.

17. ASSERTION

Canada no longer maintains a tariff on U.S. rum. [Oral assertion by WIRSPA representative]

FACTS

After this statement was made, VIRIL contacted a representative of Canada Customs in Ottawa. VIRIL was informed that the Canadian tariff on U.S. rum (C$1.50 per Canadian proof gallon) remains in place.

SUMMARY OF RESPONSES OF WIRSPA ASSERTIONS

Assertions	Facts
1. The U.S. rum market will grow at an annual rate of 11 percent through 1991.	1. Statistic out of date. Rum shipments from Puerto Rico and the Virgin Islands dropped 10 percent between 1980 and 1982
2. Production costs in foreign countries are higher than in U.S. territories.	2. Foreign producers pay lower wages and have access to local molasses. In 1982, rum shipped from the Dominican Republic had an average value below rum shipped from the Virgin Islands.
3. Rebated Federal excise taxes are used to subsidize Virgin islands rum production.	3. More than 95 percent of rebates used to finance capital improvements (e.g. roads and schools) and to pay other government expenses. Molasses is available below world market price to distillers in certain beneficiary countries.
4. Virgin Islands rum would still have a price advantage even if tariff removed.	4. Removal of tariff would permit foreign producers to enter price-sensitive segment of U.S. rum market. Nothing would compel foreign producers to continue to concentrate on marketing premium brands.
5. CBI's import relief mechanism protects Virgin Islands rum producers.	5. Virgin Islands producers may not have "standing" to seek relief if they are hit especially hard by removal of tariff. Producers must meet high burden of proof before relief is possible, and relief can be denied in President's discretion. Even if relief ultimately granted, Virgin Islands producers may have suffered irreparable harm.
6. All foreign Caribbean distillers but one are locally owned or controlled. Removal of tariff will stimulate private sector.	6. Several distillers in Jamaica, Barbados, St. Maarten and the Bahamas are owned by foreign-based multinationals. Many of the others are owned by national governments.
7. Shipping rum in bottles is uneconomical	7. Incremental cost of shipping rum in bottles is far less than present U.S. rum tariff, perhaps a quarter to a third. Nearly 20 percent of foreign Caribbean rum already arrives in bottles, and one-third of Puerto Rican shipments to the U.S. are in bottles. Thus, shipping rum in bottles cannot be a major economic burden.
8. Denial of duty-free treatment discourages expansion by foreign producers.	8. Considerable existing unused distillery capacity means foreign producers will not invest in new plants but instead will operate existing plants more days per year.
9. There is no Canadian tariff on Virgin Islands rum	9. According to Canadian Customs, Canada still maintains a tariff on rum produced in U.S. possessions.

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